

Part II

Domestic Enterprise Development and the Role of Local Governments

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1. Objectives and methods of the study

The overall objective of this study is to clarify the impact of local government activities on the development of domestic industrial enterprises within certain localities and its mechanisms. Domestic enterprises include all non-FDI business establishments, both state and non-state. With regard to local governments, the focus will be mainly on provincial and district authorities.

More specifically, the project centers on the case studies of Bac Ninh and Hung Yen and six districts (three districts from each province), conducts surveys of both administrative agencies and enterprises on the below items, and based on the surveys, considers the development process of local enterprises in each locality, the role of each level of local administration in the process, and common or distinct success factors and challenges:

- (i) General features of industrial production in each province/district.
- (ii) Development/industrialisation strategies, administrative procedures/services related to enterprises at provincial/district level
- (iii) Process of local enterprise development and its background in each province/district.

Bac Ninh and Hung Yen were selected as case study provinces. This is because in Hung Yen and Bac Ninh the industrial production by local enterprises has attained a certain level, the relatively fast growth in industrial production by local enterprises has been recorded in recent years, and the development of certain industries or clusters of enterprises has been recognized.

Field surveys were conducted in three stages in each province Bac Ninh and Hung yen. In the first stage, field surveys were mainly based on hearings with and collection of materials from provincial level administrative agencies on development strategies, administrative procedures/services related to enterprises at provincial level and general features of industrial production in each province.

After the first stage field survey, we made a final selection of the case study districts. The ways to choose these districts in Bac Ninh and Hung Yen were as follows: one district is well developed, one district is developed at average level and one is less-developed.

In the second stage, field surveys were conducted on the basis of hearings with and collection of materials from district level People's committees and some enterprises mainly on development strategies, administrative procedures/services related to enterprises at district level and process of local enterprise development and its background in each district. By conducting surveys with these districts we would explain better situation of enterprise development in these provinces.

As a result of conducting surveys at the second stage at district level, we found that in order to understand the role of the local government at provincial and district level as well as the local enterprise development in both Bac Ninh and Hung Yen we should focus interviews on three types of enterprises that are so-called "labor intensive", "technology intensive" and "traditional" industries.

Therefore, in last stage - the third one, enterprise survey was conducted with attention to "labor intensive", "technology intensive" and "traditional" industries. Regarding Bac Ninh province, furniture in Bac Ninh town is identified as "traditional industry", garment in Tu Son is identified as "labor-intensive" industry and, paper and paper products in Yen Phong is considered as "technology-intensive industry" compared to traditional and labor intensive ones. As regards Hung Yen, garment in My Hao is identified as "labor intensive" industry; electrical equipment and machinery and recycling products in Van Lam are considered as "technology intensive" and "traditional" industries, respectively.

The below section – section 2 presents each case study at provincial level and at district level. Some concluding remarks are made in the last section - section 3.

2. Case studies

2.1. Bac Ninh

2.1.1. Bac Ninh Province

Bac Ninh was re-established in 1st Jan 1997, after 3 decades joining with Bac Giang to form Ha Bac province. Bac Ninh is located in the center of the Red River Delta, next to Hanoi, the second biggest domestic market. Bac Ninh also lies within the Northern Key Economic Zone, where the economic growth rate is rather high. Bac Ninh, therefore, has the geographic advantage in comparison to many other provinces.

Transportation system, connecting Bac Ninh to other important provinces in the North, is very convenient. Bac Ninh lies in the National Road 1A from Lang Son province (with high-volume border trade) to Hanoi. It also connects Hanoi with the Ha Long Bay (with a big deep water sea port). The railroad from Hanoi to China also passes this province. The riverine system is also convenient.

Bac Ninh, however, does not possess a wealthy natural endowment pool²².

- Forest: Total land for forest was 661.3 hectares, of which 317.9 hectares was in Que Vo district and 260 hectares was in Tien Du district. Estimated wood volume was only 3,279 m³.
- Mineral: Bac Ninh does not have a rich natural mineral resource. Major types of natural mineral are different types of stones and soils for processing construction materials.
- Land: Total natural land was 807.6 km², of which land for agricultural production accounts for 60.4%, and land for forestry accounts for 0.7%, land for industrial production and for accommodation account for 25.1%. The share of unused land was 9.7%²³
- Human resources: By 2003, there were 551,717 people in the labor force, accounting for 56.1% of population. Labor force is considered as young, with 59.24% of labor force aged from 15 to 34 years old. The educational level of people in the labor force is also rather high. Average years of schooling of a worker are 7.5. Furthermore, the

²² Data in this section is provided by Bac Ninh Department of Planning and Investment (Bac Ninh DSI report 2004), otherwise stated.

²³ However, according to Bac Ninh's Statistics Office, the share of unused land is 11.1% and the share of land for industrial production and accommodation was 23.5%.

proportion of those graduating from high school (tertiary school) increased from 11.7% in 1997 to 14.5% in 2000 while the proportion of unskilled labor in labor force declined from 93% in 1997 to 82.2% in 2000. From 1997 to 2003, the share of labor force working in the industrial sector sharply increased from 7.3% to 19%.

Bac Ninh had achieved significant socio-economic results after re-establishment in 1997. The total production value (so-called provincial GDP) doubled from VND 1,548.3 billion in 1996 to VND 3,666.9 billion in 2003 (estimated at the 1994 price) (Table 2.1.1). During the period 2000-2003, Bac Ninh's GDP growth rates were stable at around 14%, much higher than national GDP growth rate. This had contributed much to the increase in provincial GDP per capita from US\$ 256 in 1996 to US\$ 571 in 2003.

Table 2.1.1: Some socio-economic development indicator of Bac Ninh province (1994 price)

Items	Unit	1996	1999	2000	2001	2002	2003
Population	person			951,100	960,900	969,600	976,800
GDP	Bill. VND	1,548.3	2,133.9	2,488.3	2,838.4	3,232.0	3,666.9
<i>Of which:</i> industry	Bill. VND	372.4	670.5	880.2	1,053.2	1,282.5	1,543.1
Per capita GDP	US\$	256	344	398	449	507	571
GDP Growth rate	%			16.6	14.1	13.9	13.5
Industry shares in GDP	%	22.3	24.2	35.3	35.6	40.1	43.0
Industrial output	Bill. VND	480.2		2,087.9	2,588.9	3,487.1	4,334.0
<i>Of which:</i> - SOE (incl. central and local SOEs)	Bill. VND			455.9	597.1	1,068.1	1,621.0
- Non-state sector	Bill. VND			835.3	1,149.2	1,510.1	1,825.0
- FDI	Bill. VND			796.7	842.6	908.9	888.0

Source: Bac Ninh Department of Planning and Investment

Of three sectors (i.e. agriculture, industry and services), the industrial sector showed the fastest growth. Its contribution to provincial GDP increased from VND 372.4 billion in 1996 to VND 1,543.1 billion in 2003. Consequently, the contribution of this sector to provincial GDP rose from 22.3% to 43.0% during the same period. The number of industrial production entities rapidly increased from 8,138 in 1996 to 14,013 in 2001. Of which, the number of state-owned enterprises (SOEs) (both central and local) increased

from 8 to 12²⁴. The industrial output also rose impressively. The total industrial output grew 36.2% per annum, from VND 480.2 billion in 1996 to VND 4,334.0 billion in 2003.²⁵

The jobs that those entities had created increased considerably since 1997. Local and central SOEs' employment rose from 4,338 in 1996 to 8,256 in 2001. In the same period, the number of jobs created by private sector also increased notably from 22,843 to 58,242 in 2001.

*i) General features of industrial production*²⁶

During the period 1986 – 1990, the industrial production was rather stagnated. The production technology was obsolete. The industrial production increased at the low rate of 6.7% per annum. Total contribution of industry sector to GDP was merely 8.3%. Although the SOEs and cooperative played the largest role in industrial production, its importance declined over years. Most of industrial products were tools and equipment for agricultural productions and some other necessities. The market for industrial products was limited within the province.

The industrial production had gradually recovered in the subsequent period from 1991 to 1999. The central SOEs had the highest growth rate of 18.9% per annum. Other sectors also recovered but at a slower rate. Thanks to this recovery, total contribution of industrial production to Bac Ninh's GDP reached to 20.6% during this period. In 1996, the first foreign direct investment project in Bac Ninh was licensed. This project marked a turning point in the industrial production of the province.

After re-establishment, the industrial production has markedly grown, and made considerable contribution to the provincial GDP growth. The annual growth rate of industrial output in the period from 1997 to 2003 was high at 36%, nearly triple the annual provincial GDP growth rate. Of the total growth rate, industrial output of the SOE sector and the domestic private sector grew at 28.3% and 35.5% per annum, respectively. Particularly, the foreign invested enterprises had increased their industrial output 3.5 times in the period from 1997 to 2003.²⁷

²⁴ Bac Ninh's Department of Planning and Investment Report (2004)

²⁵ Estimated figure by DSI. Bac Ninh's Statistics Office estimated total industrial output in 2003 was VND 4,180.2 billion.

²⁶ Data provided by Bac Ninh Statistics Office (Bac Ninh Statistics Office 2004)

²⁷ In 1996, the FDI's industrial output was nearly null in Bac Ninh province. However, it should

Within the industrial sector, although the manufacturing industries still dominated the sector with 99% of the value added, some other industries such as electricity production and water treatment had evolved rather fast. Furthermore, some industries have emerged as the strategic industries of the province. Although production of products made from non-metal mineral still accounted for the largest share of total industrial output value, its contribution reduced in recent years from 48.8% in 2000 to 37.3% in 2003. Similarly, the share of cigarette production in the total industrial output value also experienced a downward trend. In 1996, cigarette production made up 28.7% of Bac Ninh's industrial output value. This figure declined to just 6.1% in 2003. In the meantime, other industrial sub-sectors had emerged and promised more opportunity for development. This is not only indicated by the high growth rate of those sub-sectors, but also their increasing contribution to the province's industrial output value. For example, the beverage and food stuff production grew 70.3% per annum during period 1996-2003, resulting in the increase in the share of this sub-sector in the province's industrial output value from mere 4.1% in 1996 and 6.7% in 2000 to 19.8% in 2003 (See further in Table 2.1.6).

Although traditional industries grew at rather high rates, the importance of some traditional industries has slightly declined. The contribution of furniture production in Bac Ninh's industrial output value slightly declined from 12.6% in 1996 to only 8.8% in 2003. The paper industry's contribution to province's industrial output also declined from 5.7% to 5.2% during the same period. However, those industries still played important roles in job creation.

From 1997 to 2002, total number of workers working in the industry sector had increased by 44,500, of which 4,500 joined SOEs and the remaining 40,000 joined the private sector. Although the foreign invested enterprises attracted much fewer jobs, it still played an important role in Bac Ninh's economy due to its high productivity.

The high growth rate of industrial production in Bac Ninh led to higher contribution of all kinds of enterprises (i.e. enterprises in agricultural, industrial and service sector and in all kinds of ownership forms) to the provincial budget, from VND 228,408 million in 2000 to VND 455,325 in 2003 (Table 2.1.2). However, the provincial budget revenue still could not satisfy the capital required for the provincial development. Annually, the central government still injects nearly a half of the province's total outlays. Although this indicates less dependence of provincial revenue on enterprises, it reveals that many newly

be noted that in 1997, the FDI sector was very small in the province.

established enterprises are too small compared to the overall development of the province.

Table 2.1.2: Total provincial state revenue and expenditure (unit: VND million)

	2000	2001	2002	2003
Total revenue	228,408	254,788	391,821	455,325
Central SOEs	93,725	115,347	134,925	142,732
Local SOEs	3,787	4,613	5,073	8,700
Private	19,096	23,269	33,444	42,159
FDI	37,302	47,038	40,080	40,330
Others	74,480	64,521	171,299	221,404
Total Expenditure	431,136	531,210	741,597	799,040

Source: Bac Ninh Statistical Yearbook 2003

Among sectors, the non-state sector contributed the largest share of industrial output. Nearly 43.4% of the province's gross output was generated by the non-state sector in 2003 (Table 2.1.3). The foreign direct investment followed the non-state sector to be the second largest of gross output generator with 21% of gross output. The SOEs (including central SOEs and local SOEs) contributed more than 35% of gross output. Notably, the contribution of the central SOEs to gross output had been declined rather fast while the contribution of local SOEs had increased from nearly 0% to 17.2% in 2003.

Table 2.1.3: Contribution to Bac Ninh's industrial output, by ownership

	1996	2000	2001	2002	2003
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Central SOEs	53.7%	16.6%	18.0%	23.4%	18.4%
Local SOEs	0.9%	5.2%	5.0%	7.2%	17.2%
FIEs	0.0%	38.2%	32.5%	26.1%	21.0%
Non-state	45.4%	40.0%	44.4%	43.3%	43.4%

Source: Bac Ninh Statistical Yearbook 2003

While the contribution of all other districts' private sector to total gross industrial output produced by the province's private sector has experienced a downward trend since 1996, Tu Son continues playing its role as the most important production base for private entrepreneurs in the province. The district's private sector contributed 58.5% of total gross industrial output produced by the province's private sector in 2003, an increase of nearly 30 percentage points in comparison to 1996 (Table 2.1.4). Yen Phong's private

sector had replaced Bac Ninh Town's private sector as the second largest contributor to total gross industrial output produced by the private sector.

Table 2.1.4: The industrial output of non-state domestic sector by district (%)

	1996	2000	2001	2002	2003
Total industrial output of non-state domestic sector	100.0%	100.0%	100.0%	100.0%	100.0%
Bac Ninh	16.0%	8.3%	6.5%	5.5%	5.5%
Yen Phong	13.6%	11.4%	10.6%	12.8%	12.4%
Que Vo	8.5%	3.8%	3.3%	3.3%	3.5%
Tien Du	9.0%	6.3%	8.3%	5.5%	5.3%
Tu Son	30.7%	52.9%	55.9%	56.9%	58.5%
Thuan Thanh	10.2%	10.4%	7.8%	6.9%	5.8%
Luong Tai	4.6%	4.0%	4.4%	4.9%	4.5%
Gia Binh	7.3%	3.0%	3.2%	4.3%	4.5%

Source: Bac Ninh Statistical Yearbook 2003

Regarding the ownership structure, there was little change in the ownership structure of nearly all activities of industrial production from 2000 to 2003. The central SOEs still produced all gross output of cigarettes (Table 2.1.5). The local SOEs still dominated the province's beverage and foodstuff production. And the private sector is the sole producer of home furniture, textiles and some products. In some production branches, however, there was significant shift. In equipment production, the contribution of the central SOEs had reduced from 89% in 2000 to only 70.5% in 2003 while the non-state domestic sector's contribution had increased from 11% in 2000 to 29.5% in 2003. Or while, in 2000, the domestic enterprises (including private enterprises and SOEs) produced only nearly one fourth of total outputs of products made from non-metal material, they produced nearly 50% of total outputs of these products in 2003.

It is noted that the process of industrial development of Bac Ninh in the period from 1997 to present had revealed some structural weaknesses. First, traditional industrial products (including papers, wooden art furniture and wood processing, etc.), beverage, and iron production still account for a large share of total industrial output. Other industries developed rather slowly, except for garment and textile industries. Second, production technology was very out-of-date and severely harming the environment. Third, supporting industries are underdeveloped. This is partly due to the fact that most of industrial entities in Bac Ninh specialize in assembling. This has led to the dependence on intermediate input from other provinces. Currently, more than 50% of

intermediate input came from neighboring provinces. Forth, because the production technology is obsolete, many raw or semi-processed agricultural products are sold to other provinces for processing. Fifth, competitive capacity of province's industrial production entities is limited. This is partly due to the lack of capital, information and market and partly due to weak management skills of many entrepreneurs. Sixth, most of production entities could be categorized as small-scale household production. This form of production organization seems suitable for handicraft production, but not for industrial production. However, this form of organization has created a large number of jobs for people in the province.

Table 2.1.5: Contribution of industrial activities to total industrial output by ownership (%)

Products	2000				2003			
	Central SOEs	Local SOEs	Non-state	FIEs	Central SOEs	Local SOEs	Non-state	FIEs
Beverage and food stuff	0.0	62.1	37.9	0.0	0.0	84.0	10.7	5.3
Cigarette	100.0	0.0	0.0	0.0	95.3	0.0	4.7	0.0
Textile	0.0	0.0	100.0	0.0	0.0	3.9	96.1	0.0
Garment	63.5	23.6	12.9	0.0	70.4	11.8	10.8	7.1
Wood processing	0.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0
Paper	0.0	0.7	99.3	0.0	0.0	0.0	100.0	0.0
Printing	0.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0
Products made from non-metal minerals	11.9	0.4	11.9	75.7	27.0	0.6	16.4	56.0
Metal	0.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0
Products made from metal minerals	15.0	0.0	85.0	0.0	13.9	0.2	77.1	8.8
Equipment	89.0	0.0	11.0	0.0	70.5	0.0	29.5	0.0
Electric Equipment					0.0	0.0	100.0	0.0
Car repair	0.0	0.0	100.0	0.0				
Furniture	0.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0
Leather	0.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0
Chemicals	0.0	0.0	3.0	97.0	0.0	3.2	3.4	80.7
Products made from plastic and rubber	0.0	100.0	0.0	0.0	0.0	0.0	12.2	87.8

Source: *Bac Ninh Statistical Yearbook 2003*

Table 2.1.6: The industrial development in Bac Ninh from 1996, by industrial activity

(Unit: VND million at 1994 price)

Products	1996		2000		2001		2002		2003		Growth per annum (1996-2003)	Growth per annum (2000-2003)
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share		
Beverage and food stuff	19,840	4.1%	140,545	6.7%	168,055	6.5%	302,062	8.8%	824,943	19.8%	70.3%	80.4%
Cigarette	137,166	28.7%	182,714	8.8%	199,442	7.7%	230,738	6.7%	253,840	6.1%	9.2%	11.6%
Textile	2,118	0.4%	15,041	0.7%	25,179	1.0%	43,587	1.3%	49,545	1.2%	56.9%	48.8%
Garment	25,768	5.4%	50,392	2.4%	68,074	2.6%	85,375	2.5%	142,488	3.4%	27.7%	41.4%
Wood processing	2,210	0.5%	8,179	0.4%	16,137	0.6%	55,245	1.6%	66,855	1.6%	62.8%	101.4%
Paper	27,154	5.7%	114,236	5.5%	129,458	5.0%	180,250	5.2%	218,432	5.2%	34.7%	24.1%
Printing	579	0.1%	991	0.0%	1,908	0.1%	125	0.0%	151	0.0%	-17.5%	-46.6%
Products made from non-metal minerals	144,160	30.1%	1,016,396	48.8%	1,155,984	44.7%	1,529,890	44.4%	1,323,561	31.8%	37.3%	9.2%
Metal	25,931	5.4%	246,312	11.8%	343,023	13.3%	367,814	10.7%	445,113	10.7%	50.1%	21.8%
Products made from metal minerals	32,276	6.7%	71,699	3.4%	140,000	5.4%	212,483	6.2%	300,694	7.2%	37.6%	61.3%
Equipment	170	0.0%	766	0.0%	2,379	0.1%	5,551	0.2%	6,527	0.2%	68.4%	104.2%
Electric Equipment	-		-		2,080	0.1%	63,127	1.8%	76,394	1.8%	506.0%	506.0%
Car repair	1,147	0.2%	280	0.0%	767	0.0%	-		-		-7.7%	
Furniture	60,096	12.6%	190,442	9.1%	241,402	9.3%	303,442	8.8%	367,213	8.8%	29.5%	24.5%
Leather			4,813	0.2%	9,124	0.4%	15,638	0.5%	18,924	0.5%	57.8%	57.8%
Chemicals			28,104	1.3%	29,179	1.1%	38,112	1.1%	57,401	1.4%	26.9%	26.9%
Medical equipment			272	0.0%	-		-		-			
Transportation means			12,040	0.6%	48,400	1.9%	6,048	0.2%	-			
Products made from plastic and rubber			1,453	0.1%	3,987	0.2%	9,756	0.3%	15,705	0.4%	121.1%	121.1%
TOTAL	478,615		2,084,675		2,584,578		3,449,243		4,167,786		36.2%	26%

Source: Bac Ninh Statistical Yearbook 2003

ii) *Development/industrialization strategies, administrative procedures/services related to enterprises*

After re-establishment, Bac Ninh's authority set up the goal that **by 2015, Bac Ninh would basically become an industrialized province**. This goal is explicitly reflected in the long-term, medium-term development strategies of the province.

Development strategy to 2020

An annual GDP growth rate for the period from 2001 to 2010 and the period from 2011 to 2020 were set at 13% and 11%, respectively. The growth rate of labor force would be kept at under 2-3% per annum.

By 2020, 72% of GDP growth would be attributed to growth in labor productivity. And the number of people involved in the industry and service sectors would account for 2/3 of labor force.

By the year 2020, the share of industrial sector and service sector in province's GDP would be 47.6% and 42.8%, respectively. Manufacturing industry would contribute 70% to gross industrial output.

The province encourages as many people as possible to set up their own businesses.

The province would encourage the development of some core industries such as food processing, construction materials, garment and leather (in the first period from 2001-2010), electrics, electricity, and traditional-good production (in the subsequent period).

To do so, priority policies would (i) focus on infrastructure development; (ii) establish and develop industrial zones (IZs; *khu công nghiệp*) and industrial clusters (*cum công nghiệp*); (iii) foster the development of small and medium enterprises (SMEs) in food processing, construction materials, garment, and handicraft to create jobs for local people.

Development strategy to 2010

Goal of this period: Growth rate of the industry sector would be 18% per annum. By the year 2010, the industry sector would contribute 50.2% of the province's GDP; annually 5,000-6,000 new workers would enter the industrial production; and by 2010, the industry and construction sector would employ 21.5% of the total labor force. GDP per capita would be US\$ 1,070. The province would make the best use of its advantage such as lying in the country's northern key economic zone; having national roads linking Hanoi to other important provinces passed, to the ease of access to international sea and airport;

Development Strategy for the period 2001-2005:

GDP growth rate is set up at 13.5% per annum. The industrial sector would be an engine for the province's GDP growth with the annual growth rate set at 22%. By 2005, the gross value of industry and traditional industry production would be VND 2,396.1 billion (at 1994 price), accounting for 37% of total provincial GDP. GDP per capita would be US\$ 422.5.

Export value would reach US\$ 115 million by 2005 (i.e. grow at 21.8% p.a.) while import value would be equal to US\$ 90 million (i.e. grow at 28.6% p.a.)

Regarding industry development strategy, the province would fully exploit capacity of currently existing production units. In the meantime, SMEs and rural industry would be encouraged to develop. To further facilitate the development of traditional industries, the province would establish and develop industrial clusters specializing in such industries as irons and steels, wooden art furniture, paper, silk, etc. Moreover, some other industries such as textile and garment, construction glass, food and beverage, motorbike spare parts, electronics production would be fostered. The province would also speed up the construction and development of two industrial zones (Tien Son IZ and Que Vo IZ) to shelter big and modern industrial establishments. Table 2.7 presents some major economic targets of Bac Ninh.

Table 2.1.7: Some major economic targets of Bac Ninh to 2010

Items	Unit	2004	2005	2006	2010	2001-2005	2006-2010
GDP (1994 price)	Bill. VND	4180.3	4745.0	5361.8	8496.7	113.78	112.36
Of which industry	Bill. VND	1851.7	2170.9	2515.1	4299.3	119.78	114.64
Indus. shares in GDP	Bill. VND	44.0	45.4	46.9	50.6		
Industrial output	Bill. VND	5302.0	6500.0	7865	16310	125.5	120
<i>Of which</i>							
SOE (incl. central and local one)	Bill. VND	1898.0	2300.0			138.2	
Non-state sector	Bill. VND	2404.0	3100.0			130.0	
FDI	Bill. VND	1000.0	1000.0			104.7	

Source: Bac Ninh Department of Planning and Investment

Administrative measure

The provincial authorities have issued many policies to foster industrialization process in the provinces. Those policies include a socioeconomic master plan for province's

development; economic incentives for investment projects in the province; funds to encourage the development of industry and to encourage firms to export; etc.

a. Socioeconomic master plan

In 1997, the provincial authority developed the socioeconomic master plan, which was reviewed and adjusted in 2001. Based on this socioeconomic master plan, Bac Ninh's authorities have developed detailed master plan for each district and for each sector including industry, trade and tourism, transportation, education and training, health, sport, etc. The provincial authorities also designed the construction plans of the space and corridor along national roads such as new national road 1A, national road 18 and 38, and provincial road 282.

Not only did the province place along existing roads, Bac Ninh also has plans either to develop new provincial roads or to improve currently existing provincial roads to facilitate business activities.

b. Investment incentives offered by Bac Ninh province

The Provincial People's Committee issued the Decision No. 60/2001/QĐ-UD on 26th June 2001 on regulations regarding investment encouragement for investors in Bac Ninh province; and Decision No. 104/2002/QĐ-UB in 30 August 2002 to supplement some further regulations to the Decision No 60/2001/QĐ-UB. Thus, in addition to investment incentives that all foreign investors enjoy, those investing in Bac Ninh would receive some further incentives. Those incentives are as follows:

Land rent: Lowest land rent in the land rental framework for IZ issued by People's Committee of Bac Ninh province. For those invested in IZ: exempting from land rent for the first 10 years, and enjoying a reduction of 50% for the remaining years of the projects. Those enterprises will also be offered a deferred payment scheme over a certain period. For those investing in other areas, exemption period lasts for 8 years and 40% reduction for the following years.

Land compensation: Those investing in Bac Ninh will enjoy a subsidy ranging from 10 to 30% of land compensation from the provincial budget according to the scale of the projects, the number of workers, technology and location.

Capital support: Enterprises will receive subsidies equal to 30% of the VAT contributed to the provincial budget in the first two years after their projects have become operational if they invest in industrial zones. They will receive 20% subsidy when they invest in other locations within the province. FDI, apart from enjoying corporate income tax as

stipulated by the State, will benefit from capital subsidy equal to 100% of their corporate income tax for the first year and 50% for the next two years.

Vocational training support for local workers: If enterprises have their own training requirement, they will receive support equal to 50% of training fees but not exceeding VND 1 million per local worker employed.

Incentives for establishment of export processing enterprises in IZs: enterprises specializing in producing goods for export, providing services for the production of export goods or those firms involved in export may be allowed to set up export processing enterprises in IZs if they meet all necessary conditions.

Favorable conditions for trade promotion and market exploitation: Enterprises that require access to, or seek or wish to expand domestic and foreign markets will be offered favourable conditions for trade exchange, visits to foreign countries and participation in international seminars, thus providing trade and investment promotion information.

Moreover, not only do foreign investors enjoy investment incentives, the domestic investors could also be offered incentives for establishing investment projects in the province, especially in the province's industrial zones. Those incentives for domestic investors are comparable to those for foreign investors. However, there are some differences:

- Land rental: Apply the land rental at the lowest level of land price frame stipulated by the Bac Ninh Provincial People's Committee (i.e. land rent fee in Que Vo IZ is VND100/m²/year and in Tien Son IZ is VND150/m²/year). Other incentives regarding land rental are similar to those given to foreign investors.
- Preferential policies for newly formed enterprises and enterprises that move from other places to IZs: Investment projects, which have operation field in compliance with IZ planning, shall have priority to be put in IZs. Local enterprises in the Province which move to IZs shall have right to use capital gain and money collected from transferring land use rights (if possible) under the Land Law to reinvest in IZs. The local government will support part of expenditures for moving workshops from other places to IZs.
- Priorities for enterprises in case of investing and building residence for workers and infrastructure projects outside IZs. When investors invest and construct houses for workers and infrastructure works outside IZs, they shall be leased land to fulfil their projects at the lowest price as stipulated by the Bac Ninh Provincial People's Committee.

c. Establishing the export promotion fund

On 30 August 2002, People's Committee of Bac Ninh issued the decision to establish the export promotion fund in order to provide incentives for production entities to export to foreign market, to foster export of agricultural products and fine-art handicraft products. This fund is used for following purposes:

- Support production entities having contracts with local agricultural producers to buy their raw products for processing by paying or partially paying interests on less-than-6-month bank loans.
- Provide capital for production entities specializing in export to buy equipment, to expand production, and to improve the exports' quality.
- Support costs for seeking foreign markets for new products
- Support partially advertising costs to introduce export products.

d. Establishing the industrial promotion fund

On 30 August 2002, the People's committee of Bac Ninh issued a new decision regarding establishment, usage and management of the industrial promotion fund. This fund is established to support and encourage industrial production entities to invest in new equipment, expand their activities, utilize new technology, etc. Specific purposes of this fund are as follows:

- Support costs for production expansion, equipment investment, new technology and technique application.
- Support to pay interests for bank loans to buy local input including agricultural products, food products.
- Bring local products to participate in domestic and foreign trade fair.
- Change their ownership structure.
- Support capital for entities attracting at least 100 workers, who have participated in industrial production for 5 years.
- Support programs and projects having huge impact on production in the whole region.
- Award organizations and individuals who played an important role in attracting foreign direct investment projects.
- As long as the fund has positive deposits, it will provide credits without interest

for investment projects in industries that are encouraged to develop

e. Awarding for good products

Awarding production entities with products reaching Vietnam's quality standard or international quality standard, to those with ISO 9000 and ISO 14000 certificate, and to those participating in Vietnam's quality award (for example, Award for high quality Vietnamese goods, awarded annually by Saigon Marketing Newspaper).

f. Developing industrial zones and industrial clusters

By the end of 2004, Bac Ninh's authority has decided to establish 5 industrial zones (IZ) and 36 industrial clusters in districts (See Appendix A for the list of industrial zones and industrial clusters in Bac Ninh province).

Tien Son Industrial Zone, located in Tien Du and Tu Son districts, was established in 1998. This IZ lies in a much advantaged area. It is in the middle of the existing National Highway 1A and the new National Highway 1A, 16km away from Hanoi and 40km away from Noi Bai International Airport and lies along the National Highway 18. Total land area in the phase 1 was 134.76 hectares. By now, this IZ has been filled up. Major industries are consumer goods producing and assembling; Agricultural-forestry products and foodstuff processing; Agricultural machinery manufacturing and assembling and high quality construction materials; fine-art and handicraft fabrication. This IZ has a very good infrastructure. Tien Son IZ has a central route (1.6 km length, 37.5 m width) and routes from central route to factories. All routes were constructed by concrete asphalt with standard lighting system. Total power capacity is 30,623kw, of which power capacity at the 1st stage was 8,853kw. Power is supplied to IZ's plants through 35KV and 110/22KV electric network and to functional areas through electric step-down lines. Each plant is provided a step-down transformer of 22/0.4KW. Water supplied for the IZ is from ground water source through water supply plant with capacity of 6,500 cub.m/day, water is delivered to the IZ by the 1000 cub.m water tank. Waste water: tested before flowed into ground sewerage and then drainage channel with capacity of 5,360 cub.m/day. Solid rubbish of all plants and enterprises in the IZ is classified before burning or burying at common rubbish dump. Telecommunication system was also in good condition. The IZ Post Office was well connected with Bac Ninh, Tu Son and Lim Post Offices. The land-lease rate was comparatively competitive. Land rate without infrastructure was established at VND150/m²/year. Investors enjoy an exemption from land rate for the first ten years and a reduction of 50% for the remaining years of the project. Land rate with infrastructure was US\$0.3/m²/year (for the first 5 investors) and US\$ 0.4/m²/year (for

other investors). By the middle of 2004, 35 projects had been licensed. These projects had created more than 3,000 jobs. Currently, the second phase starts to operate.

Que Vo Industrial Zone: Newly established in 2003. Total land: 311.6 hectares. This industrial zone will be accompanied by a 300-ha dwelling area and 100-ha entertainment land in Bac Ninh district. A complete system of infrastructure will be built in these areas. Up to this point, 33 projects with total capital of VND 1,065 billion and USD 13.76 mil. have been licensed. Those projects are going to occupy 117.9 hectares. Six projects have started operation.

Tan Hong Hoan Son IZ: Small IZ, with land of 60 ha. Land clearance has been finished. Thirteen production projects with total capital of VND 630.8 billion have been licensed. These 13 projects occupy 39.4 hectares. Two projects have started operation.

Dai Dong Hoan Son IZ (300 ha) recently got the approval of the Government. Sixteen projects with capital of VND 958.3 billion which occupy 39.4 hectares have been licensed.

Bac Ninh Information Communication Technology (ICT) Industrial Zone: located in Tien Du and Tu Son Districts, with total operation period of 50 years. This industrial zone lies near the new National Highway 1A; 20 km away from Ha Noi and 27 km from Noi Bai International Airport. Preferential industries include IT; telecommunications; designing, manufacturing and assembling spare-parts, electric and electronic products, etc. This IZ will have international standard infrastructures (electricity, water, internet-telecommunications) and services, which meet existing and future demand and requirements well.

Moreover, 3 other industrial zones (including 300-ha Nam Son Hap Linh IZ, 200-ha Yen Phong IZ; and a pharmaceutical industry-specific IZ) are either under construction or waiting for approval of the Prime Minister.

g. Other administrative reforms

Bac Ninh implemented “one-door” model in investment management as stipulated in Government’s regulation. The Department of Planning and Investment and Bac Ninh Industrial Zone Management Board were the two focal departments with responsibility of managing investment activities within the province. In these departments, investors would be supported, provided with information and helped to deal with relating procedure by the simplest way and in shortest duration.

iii) *Process of local enterprise development and its background in Bac Ninh*

Newly registered enterprises

After the introduction of the Enterprise Law in 2000, there was a remarkable increase in the number of newly registered enterprises in Bac Ninh. Some of them just had their form of business registration transformed, while a large number were those that had been newly established. The total number of enterprises that were newly established in a year increased from 60 in 2000 to 357 in 2003. In the first ten months of 2004, 297 enterprises were newly established and registered in the province. By the end of October 2004, 1,063 enterprises had been set up since 2000 (Table 2.1.8). Moreover, more than 63% of those newly registered enterprises or 674 newly registered enterprises were in the industrial sector.

Table 2.1.8: Number of newly established enterprises in Bac Ninh.

	2000	2001	2002	2003	Jan-Oct 2004	Total
Total new	60	122	227	357	297	1063
<i>Of which:</i>						
Industry	37	79	144	222	192	674
Limited Co.	25	48	95	118	124	410
Joint stock Co.	1	1	7	28	12	49
Private	11	30	42	76	56	215

Source: Bac Ninh Department of Planning and Investment

In terms of the type of industrial enterprises, as table 2.1.8 shows, the type of limited company was selected by 410 entrepreneurs, followed by the type of private entity. Interestingly, the number of joint-stock companies has increased rapidly. While, in 2000, there was only one joint-stock enterprise registered, the number of joint-stock enterprises registered in the first ten months of 2004 was 12. The total number of joint-stock enterprises registered since 2000 has increased to 49.

By early 2003, Bac Ninh had attracted 10 foreign direct investment projects. Of those enterprises, Vietnam Float Glass Company, a joint venture between Japan and Vietnam, is the best performer.

Development of currently operating industrial enterprises

In line with the annual increase in total number of newly registered enterprises, the number of operating industrial enterprises also increased over the years from 348

enterprises in 2000 to 718 enterprises in 2003. Of all the enterprises, the number of private enterprises is substantial, accounting for more than 90% of the number of operating enterprises. More than half of all operating enterprises in the provinces were specialized in industrial production (Table 2.1.9). Interestingly, the number of operating private enterprises specializing in industrial production increased slightly faster than the increase in the number of operating enterprises. The proportion of enterprises specialized in industrial production increased from approximately 38% in 2000 to nearly 43.5% in 2003.

Table 2.1.9: Number of operating industrial enterprises in Bac Ninh province

Year	2000	2002	2003
No. of enterprises	202	292	367
<i>Of which</i>			
Central SOEs	5	8	6
Local SOEs	8	3	3
Collectives	136	157	154
Private enterprises	51	118	194
FDI	2	6	10

Source: Bac Ninh annual enterprise survey 2000, 2002 and 2003

Economic performance of those enterprises also shows very positive sign. Total revenue of operating enterprises had increased significantly from VND 1,496.7 billion in 2000 to VND 3,407.4 billion in 2003 (in nominal term). Of all the sectors, total revenue from private enterprises rose fastest, from VND 268.5 billion to VND 1,117.7 billion in 2003 (Table 2.1.10). This sector's revenue accounted for one third of total revenue generated by all operating enterprises. During the period 2000-2003, local SOEs also performed impressively, although the number of local SOEs reduced from 8 to 3. Total revenue generated by local SOEs increased from VND 124.6 billion in 2000 to VND 596.5 billion in 2003. Although central SOEs' performance was less impressive than that of local SOEs and private enterprises, the period 2000-2003 also witnessed the steady growth of these enterprises. Total revenue generated by those enterprises increased from VND 313.8 billion in 2000 to VND 658.2 billion in 2003. Among sectors by ownership, the increase in revenue of collectives and FDI enterprises was lowest from VND 196.5 billion and VND 593.3 billion in 2000 to VND 313.4 billion and VND 721.5 billion in 2003, respectively.

Table 2.1.10: Total revenue of an average operating industrial enterprise in Bac Ninh

	2000	2002	2003
Total revenue (VND bill)	1496.7	2449.9	3407.4
<i>Of which</i>			
Central SOEs	313.8	693.5	658.2
Local SOEs	124.6	215.8	596.5
Collectives	196.5	291.0	313.4
Private enterprises	268.5	374.1	1117.7
FDI	593.3	675.6	721.5

Source: Bac Ninh annual enterprise survey 2000, 2002 and 2003

During this period, the total employment generated by industrial enterprises also increased rapidly. The total number of employees in Bac Ninh's industrial enterprises rose from 13,193 in 2000 to 25,702 in 2003 (Table 2.1.11). On average, each industrial enterprise employed around 70 employees. Of all sectors, central SOEs, foreign invested enterprises and private enterprises created the largest number of jobs. From 2000 to 2003, private enterprises, foreign invested enterprises and central SOEs had created 4,683, 4,444 and 3,281 jobs respectively. By 2003, total numbers of employees working in private enterprises, foreign invested enterprises and central SOEs were 7,357, 4,871 and 7,418 respectively. Although revenue generated by the province's collectives is not as high as in other sectors, those industrial entities still employed a large number of employees. More than 4,000 workers worked in the collectives. Ironically, while local SOEs performed very well in income generation, the number of jobs created by this sector in 2003 was slightly lower than in 2000.

Table 2.1.11: Number of employees working in operating industrial enterprise in Bac Ninh

	2000	2002	2003
Total employees	13193	18162	25702
Central SOEs	4137	7475	7418
Local SOEs	1648	1089	1294
Collectives	4308	4437	4763
Private enterprises	2674	4457	7357
FDI	427	704	4871

Source: Bac Ninh annual enterprise survey 2000, 2002 and 2003

However, the increases in revenues have not been translated well into the increases in salary per employees, except those working for local SOEs. This is partly due the fact that the effects of increase in revenues had been offset by the effects of increases in the

number of employees. On average, the annual salary of each employee in a Bac Ninh's enterprise slightly increased from VND 8.19 million in 2000 to VND 9.62 million in 2002, then slightly declined to VND 8.77 billion in 2003 (Table 2.1.12). Of all sectors, employees in central SOEs receive the highest annual salary and those working in local SOEs had the highest increases in annual salary during this period. Interestingly, while average salary per employee per annum in all domestic enterprises increased, the average annual salary of those working in the foreign invested enterprises declined drastically from more than VND 33.21 million in 2000 to only VND 7.04 million in 2003. This was explained by the fact that in 2002 and 2003, some labor-intensive enterprises had been put into operation, creating a large number of jobs for low-skilled employees.

Table 2.1.12: Annual salary per employee in operating industrial enterprise in Bac Ninh

Unit: VND million

	2000	2002	2003
Salary per employee per annum (p.a.)	8.19	9.62	8.77
Central SOEs	11.5	12.35	12.51
Local SOEs	5.07	8.41	9.98
Collectives	5.10	6.68	6.26
Private enterprises	5.98	6.14	7.54
FDI	33.21	23.10	7.04

Source: Bac Ninh annual enterprise survey 2000, 2002 and 2003

Although the enterprise development in Bac Ninh province in the last few years is rather impressive, there are still some issues hindering the province's enterprise development. The most prominent issue is that Bac Ninh's industrial enterprises have limited capital. In 2000, on average, an enterprise has total capital of VND 10,844 million. Of all sectors, central SOEs have highest capital with average of VND 50,249 million. Total capital that an average local SOE possesses was VND 12,384 million. In the same year, a private enterprise has total capital of VND 3,002 million and a collective has only VND 946 million. In 2003, those figures were even lower. On average, total capital of an enterprise amounted to only VND 4,331 million, less than half of that in 2000. While the total capital of an average local SOEs did not change much at around VND 12,000 million, total capital of a average central SOE reduced to VND 23,544 million, i.e. half of that of a central SOE in 2000. Collectives and private enterprises also have lower capital than that in the year 2000. Total capital of an average collective and a private enterprise was

VND 815.6 million and VND 2,080 million, respectively.²⁸

The small size of Bac Ninh enterprises also was reflected in the total number of employees each enterprise employed. In 2003, on average, a Bac Ninh's enterprise employed 70 workers, a slight increase from 65.3 workers in 2000. However, the number of employees in SOEs, both central-level and local-level, were much higher than in private sector. In 2003, each central SOE on average employed 1,263.3 employees and each local SOE employed 431.2 employees. Those figures were much higher in 2000 when, on average, each central SOE and local SOE employed 827.4 and 209.5 employees, respectively. Each foreign direct investment enterprise also employed more workers in 2003 than in 2000. In the meantime, in contrast to the increase in the number of enterprises, the number of employees each private enterprise employed declined from 52.4 employees in 2000 to only 37.9 employees in 2003 (Table 2.1.13)

Table 2.1.13: Number of employees per an operating industrial enterprise in Bac Ninh

	2000	2002	2003
Employees per enterprise	65.3	62.2	70
Central SOEs	827.4	934.4	1236.3
Local SOEs	205.9	363.2	431.2
Collectives	31.7	28.3	30.9
Private enterprises	52.4	37.8	37.9
FDI	213.5	117.3	487.1

Source: Bac Ninh annual enterprise survey 2000, 2002 and 2003

This also was reflected in the dominance of the number of enterprises with total number of employees less than 20. In 2000, nearly 80% industrial enterprises in Bac Ninh had total number of employees less than 50. Of the 51 private enterprises, only 2 enterprises had more than 200 employees. The situation did not change much in 2003. More than 80% of the 367 enterprises in Bac Ninh had less than 50 employees, and only 5 private enterprises (out of 194) had more than 200 employees.²⁹

²⁸ Data in this paragraph was calculated from raw data of two annual enterprise surveys in 2000 and 2003.

²⁹ Data in this paragraph was calculated from raw data of two annual enterprise survey in 2000 and 2003

Another issue that should be taken into consideration was that a large number of enterprises in Bac Ninh specialize in producing a limited number of products. In 2000, 54 enterprises (out of 202 enterprises) specialize in making furniture, 40 enterprises in making paper, 30 enterprises in producing metal products and five enterprises in garment. In 2003, the number of enterprises specialized in producing furniture increased to 104, accounting for nearly one fourth of the total number of Bac Ninh's enterprises. Similarly, those specialized in producing paper, metal products and garment also increased to 63, 50 and 10 in 2003, respectively.³⁰

2.1.2. Bac Ninh Town, Bac Ninh Province³¹

Bac Ninh Town is the capital town of Bac Ninh province, with total land area of 16.34 km² and a population of 76,607. The town lies along the National Road 1A and the railroad from Hanoi to Lang Son.

Before Bac Ninh province was re-established, Bac Ninh town was one of the three industrial districts of Ha Bac province. By December 1996, up to 22 industrial enterprises had been established in this town. Of these enterprises 5 enterprises were central SOEs, 3 enterprises were provincial SOEs, and the remaining 14 enterprises were private ones. Major products of these enterprises included garment, glasses, cigarette, and porcelain. These 22 enterprises, together with 700 household production units, employed 4,000 people, of whom 3,000 people worked for Dap Cau Garment Company. The industrial output value grew stably at 12-13%. In 1996, the industrial output value reached VND 35 billion (at 1994 price) from VND 29 billion (at 1994 price) in 1995. With the participation of those industrial enterprises, the economic structure of Bac Ninh town had significantly shifted. Of three sectors, industry sector contributed the largest to the town's gross output (49.9%).

After re-establishment in 1997, the economic development of Bac Ninh town has been rather impressive. During the period from 2000 to 2003, the town's gross output grew at 15.3%, and accounted for 22-25% of the province's gross output. This achievement is partly due to numerous attempts of Bac Ninh town's authority to create a more favorable business environment facilitating the economic development and industrial production in

³⁰ Data in this paragraph was calculated from raw data of two annual enterprise survey in 2000 and 2003

³¹ Data used in this section was taken from the reports prepared by Bac Ninh Town People's Committee and Bac Ninh's Statistics Office, annual enterprise surveys, and our survey.

the town. The town's authority has actively coordinated with provincial authority to develop the town's economic development master plan, including plan for land usage till 2010. Economic Department and Project Management Board were the two departments that directly facilitate business activities according to the Government's regulation. Furthermore, the town's leaders also asked not only the two above mentioned departments but also all the local authorities to create the most convenient environment for economic development, including the people's business activities. The town's authorities had coordinated with the province's line departments to deal with issues emerging in the process of implementing the central Government's policies and provincial's guidelines in a timely manner. A communication channel was also established to listen to and share difficulties of the business community.

Moreover, from 2000, the authority of Bac Ninh town has spared land for developing two industrial clusters (ICs). One was Vo Cuong IC, and the other was Vu Ninh IC. Total land area of the former was 7 hectares and that of the latter was 69 hectares. The priority will be given to those with environment friendly production technology and those with high proportion of brain (or complex production technology). Some large enterprises such as 69.1 Machine Assembly Company and Dap Cau Glasses Company would receive preferential treatment to expand their territories. The People's Committee has set up an IC management board to manage the process of developing ICs in the town.

Thanks to those efforts, by the end of 2003, the economic condition of the town had been drastically improved. More specifically, industrial output constantly increased from VND 350 billion in 2000 to VND 692 billion in 2001, VND 749 billion in 2002 and about VND 1,386 billion in 2004. The development of the town was also reflected in its noted structural change. The industry and service sectors now account for nearly whole gross output of the town (Table 2.1.14.)

Table 2.1.14: Economic structure of Bac Ninh town

	Unit	Year				
		2000	2001	2002	2003	2004 (Est)
Total output value	%	100.0	100.0	100.0	100.0	100.0
Agriculture	%	6.4	5.5	5.5	4.4	3.8
Industry	%	47.6	48.8	46.7	49.7	49.9
Service	%	46.0	45.7	47.8	45.9	46.3

Source: Bac Ninh Department of Planning and Investment

Enterprise development:

Total number of operating enterprises in the town has increased to 170 in 2003, from 86 in 2000. Of these 170 enterprises, 117 enterprises were private enterprises, 25 were collectives, 26 were SOEs and 2 were foreign direct investment enterprises. Compared to 2000, the number of private enterprises increased by 69 while the SOE decreased by 5. In addition, 3 more collectives and 2 foreign direct investment enterprises were set up since 2000.

In terms of sectoral structure, of the 170 operating enterprises in Bac Ninh town, 35 enterprises were specialized in industrial production, including 3 central SOEs, 1 local SOE, 8 collectives, 21 private enterprises and 2 foreign direct investment enterprises. Thus, the number of enterprises operating in the industrial sector increased by 13 since 2000.

Not only did the number of industrial enterprises increase, total number of employees in those enterprises and the average number of employee per enterprise also increased from 4,701 and 213, respectively, in 2000 to 9,019 and 257 in 2003. Of 9,019 workers in industrial enterprises, central SOEs and local SOEs employed 4,436 and 615 workers, respectively. 3,212 workers worked in foreign invested enterprises. The remaining industrial workers worked for collectives (189 people) and private enterprises (563 people). On average, an industrial enterprise in Bac Ninh town has 257 employees.

In 2002, the town attracted a Korean garment company to establish a factory. This factory was also the first foreign direct investment project in the town.

The town also identified the garment industry as the most important industry in the town. By the end of 2003, more than 9% of the town's industrial output value was contributed by this sector. This industry created employment for more than 6,000 people.

*Garment enterprises in Bac Ninh town – some stylized facts from CIEM's survey*³²

Because Dap Cau Garment Company was so big that it could grossly affect the results of statistical analysis; we have to use two samples from our survey. The first one includes Dap Cau Garment Company while the second excludes Dap Cau Garment Company.

³² Of the 7 enterprises in the survey, 6 were either SOEs or private enterprises or foreign invested enterprises, 1 was household production unit. Thus, it is obvious that all the garment enterprises operated in the town were selected.

Table 2.1.15a presents that, since 2000, garment enterprises in Bac Ninh town have performed rather well. The average revenue has increased over years, except for the year 2003. The decline in average revenue in 2003 was partly due to the late entry of some new enterprises.

Table 2.1.15a: An average garment enterprise in Bac Ninh (with Dap Cau company)

	Unit	2000	2001	2002	2003	2004
Revenue	VND mill.	29,134	36,219.5	37,710.1	22,429.6	18,041.1
Export	VND mill.	26,727	32,023	31,040.7	19,447.0	16,738.0
Labor	People	869	908	829	897	862
Skilled employee	People	792	824	693	824	791
Salary per employee per month	VND	708,500	690,000	628,000	608,000	702,000
Tax	VND mill.	55	148.3	484.7	247.3	

Source: CIEM's survey

However, this explanation may be weakened when dropping Dap Cau Garment Company out of the samples (Table 2.1.15b). Although in 2003, other garment enterprises in the town also experienced a declining trend, the reduction was not so huge as in the first sample. This implies that, while the garment industry is becoming more severely competitive, the Dap Cau Garment Company seemed to be slow in creating its own competitive advantage.

Table 2.1.15b: An average garment enterprise in Bac Ninh in 2003 (without Dap Cau company)

	Unit	2000	2001	2002	2003	2004
Revenue	VND mill.	250.0	240.0	3,409.5	2,432.2	7,898.5
Export	VND mill.	100.0	75	0	510.8	6,729.3
Labor	People	15	15	94	576	515
Skilled employee	People	13	13	9(??)	533	474
Salary per employee per month	VND	N/a	N/a	573,000	570,000	652,000
Tax	VND mill.	N/a	N/a	562.5	249.2	

Note: The figure on skilled employees in 2002 was not fully clear in the interview.

Source: CIEM's survey

Economic linkage – Input

Table 2.1.16 shows that most of the local garment enterprises had to buy materials for production from other provinces (60.8% for the sample with Dap Cau garment company

and 70.7% of total material value for the sample without Dap Cau Company), and even from abroad (more than one third of total material for the sample with Dap Cau Company and one fifth for the sample without Dap Cau Company). The local suppliers could only provide around 5% of total material value. This may partly increase the production cost, therefore hinder the competitiveness of Bac Ninh Town's Garment enterprises.

Table 2.1.16: Input linkage of garment enterprises in Bac Ninh in 2003 (% of input value)

Source of input	Proportion (with Dap Cau)	Proportion (without Dap Cau)
- Local suppliers in the same district	4.3%	5.0 %
- Local suppliers in the same province	0 %	0 %
- Southern provinces	12.7 %	14.7 %
- Central provinces	0 %	0 %
- Northern provinces	48.1 %	56 %
- Imports	35.3 %	24.3%

Source: CIEM's survey

Economic linkage – Output

It is interesting that the garment enterprises in Bac Ninh town had rather diversified customers (Table 2.1.17a). The end users were the largest customers, regardless of the inclusion of Dap Cau Garment Company in the sample. The end users consume nearly 31% and 35% of total garment output for the sample with Dap Cau Garment Company, and for the sample excluding Dap Cau Garment Company, respectively. As long as the Dap Cau Garment Company is included in the sample, foreign buyers was the second largest group of consumers, while the retail shops were the second largest group of consumers if the Dap Cau Garment Company was excluded from the sample. State agencies and SOEs bought a rather large amount of garment products. This may imply that a proportion of outputs made by the Town's garment enterprises were outsourced by state-owned garment enterprises.

Table 2.1.17a: Output linkage of garment enterprises in Bac Ninh in 2003, by customers (% output value)

Customers	Proportion (with Dap Cau)	Proportion (without Dap Cau)
- State agencies and SOEs	14.3 %	16.7 %
- End users	30.9 %	35.0 %
- Retail shops	15.7 %	18.3 %
- Wholesaler	11.4 %	13.3 %
- Export	27.7%	16.7 %

Source: CIEM's survey

There was also a diversification of markets where products of the town's garment enterprises are sold. For the sample with Dap Cau Garment Company, only one third of the total products were sold in Bac Ninh Town or Bac Ninh province (Table 2.1.17b). 27.7% of total products were sold abroad. A large proportion of output was sold in the Northern and Central provinces. For the sample of enterprises without Dap Cau Garment Company, the district and province market seemed to be more important. 36.6% of total products were sold in this market. The foreign market played a smaller role while markets in other provinces were relatively more important for those enterprises.

**Table 2.1.17b: Output linkage of garment enterprises in Bac Ninh in 2003, by location
(% output value)**

Customers	Proportion (with Dap Cau)	Proportion (without Dap Cau)
Buyers in the same district	11.6%	13.3%
Buyers in the same province	20 %	23.3 %
Buyers from the Southern provinces	1.4%	1.7 %
Buyers from the Central provinces	13.2%	15 %
Buyers from the Northern provinces	26.1%	30 %
Abroad	27.7%	16.7 %

Source: CIEM's survey

Business environment

Factors facilitating the development of enterprises:

- Increased demands (due to policies facilitating the development of the economy); expanding market;
- Technology improvement;
- Labor abundance;
- Secure the quality of products;
- Have a flexible management mechanism;
- Minimize production costs;
- Maintain the good reputation;

Factors hindering the development of enterprises

- Increase in input price and high transportation cost leading to high production cost;
- Limited source of input providers;
- More difficult to cut cost;
- Severe competition;

- Outsourcing price is low;
- Inconsistent and unstable Government policies;

How to deal with difficulties

- Improve technology;
- Improve productivity; minimize production cost;
- Design new models to satisfy customers' demand; improve quality of products
- Further training for the labor;
- Expand foreign markets;
- Keep the faith of customers;
- Develop new management methods, apply new method of quality control management;

Factors supporting the development of enterprises

- Design new models which are not only cheaper but also more beautiful;
- Secure the quality of products, secure delivery on time;
- International management mechanism to increase competitiveness;
- Apply customer-oriented management mechanism;

Input for production: Labor

- Lack of skilled labor, but abundance of unskilled labor;
- Vocational training school could not satisfy the demand for skilled labor because training contents were outdated and training facilities were poor; teachers do not qualify;
- Some enterprises had to pay training fees but in some cases, enterprise and workers have to share the fees;
- Most of enterprise employed local workers but some also hired labor from other province;

Input for production: Land

- Complicated procedure, lacking a consistent mechanism for land clearance; but most of them think that procedure for land clearance is convenient and even reasonable costs;

Input for production: Credit

- Most of enterprises could borrow from commercial banks, but the borrowing procedure much more complex than borrowing from informal credit providers;

Infrastructure

- Electricity: most of enterprises think that electricity is good, but at a little bit high price;

- Water supply is generally good;
- Telephone: Half think that telephone system is good and the remaining is not good;
- Infrastructure is improving;
- Monopoly in those industries (i.e. electricity, water, and telecommunication) --> Not so good quality;

Local authority support:

- Development policies are sometimes inconsistent, and could not solve issues encountered by enterprises. Local authority slowly dealt with problems that enterprises asked;
- Most of them get some preferences from local authority;
- Administrative procedure is convenient and rather simple;

Communication with local authority:

- Face-to-face meetings or through telephone and official documents;

What the local authority has to do

- Help enterprises expand their markets including overseas market;
- Register the quality of products and trade marks;
- Keep social stability;
- Do what the local authority has said/promised;
- Access to capital.

2.1.3. Tu Son District, Bac Ninh Province³³

Tu Son is a district with many favorable conditions for economic development. This district lies adjacent to Hanoi. The local leaders had perceived this adjacency as the competitive edge of the district for a long time. Tu Son has a total land area of 61.4km² with total population of 123,000. In terms of land and population, Tu Son is not a big district. Infrastructure is rather good. Residents in this district have long been considered educated and highly skilled.

Due to its own advantages, Tu Son had been an industrial production base of former Ha Bac province as well as Bac Ninh province for a long time. The economic development

³³ Data used in this section was taken from reports prepared by Tu Son people's committee, by Bac Ninh's Statistics Office and from annual enterprise surveys and our survey.

of this district played the locomotive role for the whole province. However, in the last few years, the district leaders have recognized that Tu Son has to play the leading role in the process of industrialization and modernization of the province. The local authorities have implemented a number of policies to further foster the economic development of the province and considered the industrial development as the most important task in the years to come. Tu Son's authorities have coordinated with line provincial departments to establish the district's socioeconomic development plan to the year 2010 and the year 2020. On their side, the People's Committee and its departments have attempted to create the most favorable conditions for industrial development. A large proportion of agricultural land was transformed to land for industrial development. Seven industrial clusters are under process of development, of which 5 have started operation and 2 are under registration. Those industrial clusters specialize in producing traditional products. Enterprises operating in industrial clusters have to pay rental fee of VND 50,000 per m², much lower than in IZ but they have to pay for infrastructure construction.

In addition, other measures were also carried out. All the provincial policies were strictly implemented in the district. District leaders as well as leaders of functional departments have established a communication channel to exchange information with the district business community. As long as there are any problems faced by businesses, the leaders had either consulted with line provincial department or consulted with business community to find solution. Due to this close relationship, the economic and industrial development in the district achieved positive results. The district's gross output had increased four times during the period from 1999 to 2004. The gross output grew 60.2% per annum in the period from 1996 to 2000 and 31.1% per annum in the period 2001-2004. Industrial output increased at the rate of 26% per annum. Some industries had high growth rate such as the iron/steel production and furniture production. Moreover, some other industries have been established such as electric motor.

Together with the economic development, enterprise development was also notable. In the period from 2000 to October 2004, some 439 enterprises were newly registered, accounting for 41.3% of total number of newly registered enterprises in Bac Ninh province. Total registered capital amounted to VND 994.75 billion, accounted for 27.66% of total registered capital of all newly registered enterprises (Table 2.1.18). During the same period, the number of newly registered industrial enterprises also increased fast. Total number of industrial enterprises registered in the period from 2000 to October 2004 were 218, accounting for half of the newly registered enterprises in whole district. Total registered capital amounted to VND 779.56 billion, equal to 78% of total capital all

enterprises registered in the district.

Table 2.1.18: Number of newly established industrial enterprises in Tu Son District

	2000	2001	2002	2003	Jan-Oct 2004
Total new	22	54	94	162	107
Of which industry	12	27	51	78	50
Limited Co.	9	18	32	55	30
Joint stock Co.	0	0	3	4	2
Private	3	9	16	19	18

Source: Bac Ninh Department of Planning and Investment

Like other districts in the province, the number of operating enterprises was much lower than the number of registered enterprises. By the end of 2003, there were 273 enterprises operating in the districts, including 6 central SOEs, 20 local SOEs, 25 collectives, 117 private enterprises and 2 foreign direct investment enterprises. In comparison to the year 2000, the number of operating enterprises increased by 157 or one third of the number of enterprises newly registered in the district.

However, during this period, operating enterprises performed rather well. 3,477 new jobs were created, making the number of employees in formal enterprise 9,828. Total contribution (via tax) of all enterprises also increased much from VND 37 million per enterprise to VND 81 million per enterprise during this period. In construct, the average revenue gained by enterprises increased slightly from VND 3,421 million in 2000 to 3,501 million in 2003.

The industrial enterprise development presented a brighter picture. Total number of industrial enterprises operated in the district increased from 79 enterprises in 2000 to 171 enterprises in 2003. These enterprises included 2 central SOEs, 63 collectives, 105 private enterprises and 1 foreign direct investment enterprise. These enterprises created 7,347 jobs, an increase of 2,751 jobs compared to 2000. The private enterprises were the major employee absorber during this period. More than 2,200 jobs (out of 2,751 new jobs) were created by private enterprises. Industrial enterprises' performance was also better than other enterprises. The growth rate of revenue that an industrial enterprise experienced was also higher than that of a normal enterprise. On average, an enterprise's revenue increased from VND 1,965 million in 2000 to VND 2,593 million in 2003. The healthy growth of industrial enterprises directly improved the living standard of employees. The annual salary of an employee in industrial enterprises increased from

VND 5.55 million in 2000 to VND 7.91 million in 2003.

Iron/steel and furniture product are two most important output of Tu Son's industry. By the end of 2003, 98 enterprises specialized in furniture making, accounting for 57% of total industrial operating enterprise in Tu Son district. By the end of 2003, these enterprises employed nearly 3,479 employees, i.e. each enterprise employed around 35 employees. Total revenue of these 98 enterprises were VND 139.45 billion in 2003, accounting for 31% of total revenue generated by all industrial enterprise in the district. This indicates that in general, enterprises specializing in furniture production are rather small. This may hinder their competitiveness as long as big enterprises from other localities join the market.

*Furniture producing enterprises in Tu Son – some stylized facts from CIEM's survey*³⁴

Revenue per enterprise increased rapidly year on year (from average VND 1,819.3 million in 2000 to VND 4,821.9 million in 2003). The average revenue of the enterprises in the sample is much higher than that of all local enterprises in the industry. A large proportion of the revenue comes from export. In 2003, on average, each enterprise exported VND 2,353.9 million, nearly equal to half of their total revenue. (Table 2.1.19) However, the number of enterprises exporting their products remained at around 6 or 7.

Table 2.1.19: An average furniture producer in Tu Son

	Unit	2000	2001	2002	2003	2004
Revenue	VND mill.	1,819.3	1,837.0	2,739.5	4,821.9	3,041.7
Export	VND mill.	1,132.6	588.3	1,057.7	2,353.9	1,903.1
Labor	People	81	41	66	85	63
Skilled employee	People	25	12	23	15	16
Salary per employee per month	VND	356,000	520,000	645,000	728,000	746,000
Tax	VND mill.	22.7	71.7	128.6	212	

Source: CIEM's survey

The number of employees per enterprise fluctuated, depending much on the market demand for the products. This may be due to the entry of small enterprises, causing the

³⁴ There were 15 enterprises (out of 98 furniture enterprises) in the sample. Total revenue of those enterprises in 2003 was VND 72.33 billion, accounting for 52% total revenue generated by all furniture-producing enterprises in the district.

average number to decline. However, this explanation could not cover the implication that those enterprises lacked experienced workers to expand its markets. The number of skilled workers an enterprise employed also fluctuated.

Salary for employees improved over the years. An average employee earned VND 728,000 per month in 2003, a large increase from VND 356,000 per month in 2000. Contribution to the Government in the form of tax also increased from mere VND 22.7 million in 2000 to VND 212 million in 2003

Economic linkage – Input

Due to the specification of wooden art furniture production, most of woods for making fine-art furniture (61% of total input values) came from central provinces (Table 2.1.20). However, those woods are not planted in the central provinces but imported from Laos through intermediaries. This process has pushed up the raw material price. However, currently, in this district, where the demand for wood is high, there is no wood importer operating.

Some smaller producers did not buy material from importers in the central provinces but bought from intermediaries in the district or provinces. Some have selected the domestic wood for their production.

Table 2.1.20: Input linkage of furniture producers in Tu Son in 2003 (% of total input value)

Source of input	Proportion
- Local suppliers in the same district	16.0 %
- Local suppliers in the same province	2.3 %
- Southern provinces	7 %
- Central provinces	61.7 %
- Northern provinces	4.3 %
- Imports	8.7 %

Source: CIEM's survey

Economic linkage – Output

A large share of output had been sold to household end users (around 51%) through different channels (Table 2.1.21). One fifth of the output was sold to state agencies and SOEs to decorate their offices. A smaller share of output was exported, mostly to China.

Table 2.1.21: Output linkage of furniture producers in 2003, by customers (% output value)

Customers	Proportion
- State agencies and SOEs	19.3 %
- End users	28 %
- Sell by themselves (through their own channel)	23.3 %
- Retail shops	10 %
- Wholesaler	2.0 %
- Foreign invested enterprises	0 %
- Export	16.95 %

Source: CIEM's survey

Customers living in Tu Son and Bac Ninh bought nearly one third of the total output (Table 2.1.22). The other comparable share (31%) was sold in other northern provinces (mostly in Hanoi). 21% of the output was exported. Customers in the southern and central provinces bought only 15% of the total output.

Table 2.1.22: Output linkage of furniture producers in 2003, by location (% output value)

Customers	Proportion
- Buyers in the same district	7.3 %
- Buyers in the same province	25.5 %
- Buyers from the Southern provinces	4 %
- Buyers from the Central provinces	11.2 %
- Buyers from the Northern provinces	31.0 %
- Foreign buyers (from abroad)	21 %

Source: CIEM's survey

Business environment

Factor facilitating the development of enterprises:

- Increased demands (due to policies facilitating the development of the economy) ; expanding market;
- Have enough capital for expanding business;
- Labor abundance;
- Secure the quality of products;
- Have a stable source of input;
- Handicraft techniques;
- Maintain the good reputation;

Factors hindering the development of enterprises

- Increase in input price and high transportation cost, resulting in high production cost;
- More difficult to cut cost;
- Severe competition;
- Lack of skilled labor;
- Lack of capital;

How to deal with difficulties

- Improve productivity;
- Minimize production cost;
- Design new models to satisfy customers' demand; improve quality of products;
- Provide further training for labor;
- Expand foreign markets;

Factors supporting the development of enterprises

- Improve quality;
- Design new models which are not only cheaper but also more beautiful;
- Expand current market;
- Faith of workers toward company;

Input for production: Labor

- Lack of skilled labor, enterprise has to train workers for itself;
- Vocational training school could not satisfy the demand for skilled labor because training contents were outdated and training facilities were poor; teachers do not qualify;
- Most of enterprise employed local workers but some also hired labor from other province;

Input for production: Land

- Most of them think that procedure for land clearance is convenient and even reasonable costs;
- Most of them think they get sufficient support from local authority;

Input for production: Credit

- Most of enterprises could borrow from commercial banks, but the borrowing procedure much more complex than borrowing from informal credit providers;

Infrastructure

- Electricity: most of enterprise thinks that electricity is good;
- Water supply is generally good;

- Telephone: Telephone system was weak;
- Infrastructure is improving;
- Monopoly in those industries --> Not so good quality;

Local authority support:

- Local authority slowly dealt with problems that enterprises asked;
- Most of them get some preferences from local authority;
- Administrative procedure is convenient and rather simple;

Communication with local authority:

- Face-to-face meetings or through telephone and official documents;

What the local authority has to do

- Help enterprises expand their markets including overseas market;
- Register the quality of products and trade marks;
- More land for production; support enterprises enter ICs;
- Do what the local authority has said/promised;
- Access to capital.

2.1.4. Yen Phong District, Bac Ninh Province³⁵

Yen Phong is located in the key economic zone of Bac Ninh province, with total land area of 113.2 km² and a population of 114,439 (by the end of 2003). The transportation system is rather convenient. Some important roads such as National Road 1A, National Road 18 and the road linking Soc Son, Dong Anh with Noi Bai Airport are next to the district. Yen Phong is largely an agricultural district. The proportion of industrial output in district's production output was small. However, the fairly fast urbanization in the district had caused a decline in agricultural land and consequently a reduction in agricultural land per head. Therefore, developing small-scale and handicraft industrial production is an urgent task. The local authority also considered developing the traditional industries as one of their priorities in the district's development strategy.

Before 1997, Yen Phong district had only 15 enterprises. All of these enterprises were collective or privately-owned and small-scale. These 15 enterprises produced only two types of product including aluminum facilities and worm silks. They, together with more than 800 household papermaking units, attracted more than 2,000 employees. In this

³⁵ Data used in this section was taken from reports prepared by Yen Phong People's Committee, by Bac Ninh's Statistics Office and from annual enterprise surveys and our survey.

period, the industrial production value increased 5-9% per annum.

After 1997, local authority implemented a number of policies to facilitate the economic development of the district. All these measures were implemented to create favorable conditions for the development of industrial production. The district's authorities coordinated with the province's line departments to deal with issues emerging in the process of implementing the central Government's policies and provincial's guidelines in a timely manner. Furthermore, all the district's authorities had to create the most essential initial conditions for enterprise development, especially issues relating to land clearance for constructing industrial clusters as well as factories. Thanks to these policies and will, the industrial production grew rather well in this district. Industrial output increased constantly, from VND 146 billion in 2000, to VND 166 billion in 2001, VND 193 billion in 2002, and further to VND 222 billion in 2004. The papermaking industry is the most important industry in the district, accounting for 78% of district's total industrial output. To further develop this industry, the district has decided to establish a VND 23 billion paper-specialized industrial cluster in Phong Chau commune. This IC has total land of 12.63 hectares and currently hosts 80 papermaking enterprises.

Enterprise development:

Due to the appropriate policies of provincial and district authorities, the business activities in the district have rapidly flourished. The newly registered enterprises increased year-on-year. While there were 8 enterprises newly registered in 2000, 56 new enterprises were registered in 2003 (Table 2.1.23). From 2000 to Oct 2004, there were 146 new enterprises with total capital of VND 328.8 billion, of which 79 enterprises were industrial enterprises with total capital of VND 238.4 billion. However, there was still a large gap between the number of registered enterprises and the number of operating enterprises. In 2000, 54 enterprises operated in the district, including 31 collectives and 23 private enterprises. The number of operating enterprises increased to 92 in 2003. Of these, 28 enterprises operated in the form of collectives, and 63 enterprises in the form of private enterprises, and 1 enterprise was a foreign direct investment enterprise. The total number of employees working in these formal enterprises also increased from 1,265 in 2000 to 2,548 in 2003. The annual revenue of those enterprises, on average, rose from VND 4,620 million in 2000 to VND 9,549 million. The annual salary of employees in those enterprises, on average, also increased to VND 7.57 million in 2003 from VND 6.22 million in 2000.

Table 2.1.23: Number of newly established industrial enterprises in Yen Phong District

	2000	2001	2002	2003	Jan-Oct 2004
Total new	8	17	27	56	38
Of which industry	5	10	13	30	21
Limited Co.	3	4	5	4	9
Joint stock Co.	0	0	0	0	0
Private	2	6	8	26	12

Source: Bac Ninh Department of Planning and Investment

Industrial enterprises also developed in terms of both quantity and quality. Total number of industrial enterprises increased from 39 enterprises in 2000 to 63 enterprises in 2003. Of these 63 enterprises in 2003, 40 enterprises operated in the form of private enterprises (increased from 17 enterprises in 2000), and 22 enterprises operated in the form of collective. The number of foreign direct investment enterprise (1 enterprise) did not change from 2000. Those enterprises performed rather well. If in 2000, on average, an industrial enterprise had revenue of only VND 2,101 million, this figure rose to VND 11,662 million in 2003. This dramatic change was partly due to the entry of some large enterprises in the district, implying that the district had become more attractive to a number of large investors. The development of enterprises had attracted a large number of employees working in the industrial enterprises. By the end of 2003, these production entities attracted 2,208 employees, twice as high as that in 2000. Of these, 657 employees were attracted to 22 cooperatives, 1,525 employees to private enterprises and 28 employees to the foreign invested enterprise.

Among enterprises, collectives usually performed much less impressive. The average revenue of a collective was one fourth of that of a private enterprise. However, the development of enterprises has not been translated well to the improvement of living standard of employees working in those enterprises. Annual salary of employees working in collectives increased meagerly from VND 6.33 million in 2000 to VND 6.49 million in 2003, while that of employees in private enterprises rose faster from VND 6.07 million to VND 8.10 million during the same period.

The papermaking is the most important industry in the district. The output value of this industry increased from more than VND 43.00 billion in 2000 to VND 179.01 billion in 2003. Although employees in the papermaking industries did not have high educational level, they were highly skilled. Therefore, average monthly salaries of employees in this industry also increased significantly from VND 256,000 per month in 2000 to VND 750,000 per month in 2003.

*Papermaking enterprises in Yen Phong – some stylized facts from CIEM's survey*³⁶

Papermaking enterprises developed rather well in the last few years. Revenue per enterprise increased rapidly year on year (from average VND 3,429.8 million in 2000 to VND 8,485.5 million in 2003). The number of employees per enterprise also increased (from 37 people per enterprise in 2000 to 63 people per enterprise in 2004). The number of skilled workers an enterprise employed also rose from 8 employees per enterprise in 2000 to 14 employees in 2003 and in 2004. Living standard of employees also improved. On average, each employee could earn VND 698,000 per month in 2004, increasing from VND 456,000 per month in 2000. However, contribution to the government fluctuated. This may be explained by complicated tax structure, which encouraged tax evasion behavior (Table 2.1.24).

Table 2.1.24: An average papermaking enterprise in Yen Phong in 2003

	Unit	2000	2001	2002	2003	2004
Revenue	VND mill.	3,429.8	5,881.1	6,030.5	8,485.5	4,903.5
Labor	People	37	46	52	65	63
Skilled employee	People	8	7	8	14	14
Monthly wage per employee	VND	456,000	528,000	581,000	639,000	698,000
Tax	VND mill.	208.8	259	181	162	

Source: CIEM's survey

Economic linkage – Input

Input for papermaking in the district was recycled papers, so it is understandable that most important sources of input were suppliers located in the same district, in other districts and in other neighboring provinces, especially Hanoi (Table 2.1.25). On average, a papermaking enterprise bought 27.8% of its input from suppliers living in Bac Ninh province. However, the most important sources of input came from other neighborhood. 56% of total input was bought from other provinces, especially from Hanoi. It is also noted that 9.5% of input for papermaking process was imported, implying that some of

³⁶ We conducted a survey in a sample of 15 papermaking enterprises in Yen Phong District (out of 27 papermaking enterprises). Of those 15 enterprises, 11 were private enterprises, and the remaining are collectives. Most of these private enterprises had transformed from household production. The 15 surveyed enterprises had total revenue of VND 127.28 billion in 2003, accounting for 71% total revenue of all papermaking enterprises in the district.

the enterprises had transformed themselves into higher ladder of production chain. They were willing to import input from abroad to produce higher quality paper.

Table 2.1.25: Economic linkage of papermaking enterprise in 2003 (% input value)

Source of input	Proportion
- Local suppliers in the same district	15.0 %
- Local suppliers in the same province	12.8 %
- Southern provinces	1.4 %
- Central provinces	5.3 %
- Northern provinces	56.0 %
- Imports	9.5 %

Source: CIEM's survey

Economic linkage – Output

Due to the intermediary characteristics of products, i.e. input for other paper products, enterprises had to depend on their own distribution channels to sell products. Nearly three fourths of output was sold through their own selling channel while only 0.7% of products were sold to end users (Table 2.1.26). This indicates that many paper enterprises do not produce final products for consumers, and consequently, their profit gain is not so high.

Table 2.1.26: Output linkage of papermaking enterprises in 2003, by customers

(% of output value)

Customers	Proportion
- State agencies and SOEs	15.4 %
- End users	0.7 %
- Sell by themselves (through their own channel)	71.3 %
- Retail shops	2 %
- Wholesaler	4 %
- Foreign invested enterprises	0 %
- Export	0 %

Source: CIEM's survey

Despite its weakness in diversifying the products, papermakers have done rather well in diversifying their customers in different regions. Only 22.3% of the output was sold in the province. A large proportion was sold in other provinces, of which the purchasers in the Northern areas were largest buyers. 38.7% of total output was sold to those buyers. Interestingly, buyers from the South were also important customers. More than 28.3% of

output was sold to the southerner customers. (Table 2.1.27)

Table 2.1.27: Output linkage of papermaking enterprises in 2003, by location
(% of output value)

Customers	Proportion
- Buyers in the same district	2.3 %
- Buyers in the same province	20 %
- Buyers from the Southern provinces	28.3 %
- Buyers from the Central provinces	10.7 %
- Buyers from the Northern provinces	38.7 %
- Foreign buyers (from abroad)	0 %

Source: CIEM's survey

Business environment

Factor facilitating the development of enterprises:

- Increased demands (due to policies facilitating the development of the economy); expanding market;
- Technology improvement;
- Have a flexible management mechanism;
- Have a stable source of input;
- Handicraft techniques;
- Stable infrastructure price but authorities should cut the prices when the cost reduced;

Factors hindering the development of enterprises

- More difficult to cut cost;
- Severe competition;
- Lack of skilled labor;
- Inconsistent and unstable Government policies;
- Lack of capital;

How to deal with difficulties

- Improve technology;
- Improve productivity;
- Minimize production cost;
- Encouraging employees to increase productivity;
- Expand foreign markets;
- Keep the faith of customers;

Factors supporting the development of enterprises

- Improve quality;
- Design new models which are not only cheaper but also more beautiful;
- Expand current market;
- Faith of workers toward company;
- Self-strengthening;

Input for production: Labor

- Abundance of unskilled labor;
- Vocational training school could provide skilled labor but at a limited number;
- Most of enterprise employed local workers but some also hired labor from other province;

Input for production: Land

- Procedure for land clearance is convenient and even reasonable costs;
- Only small number of firms gets limited support from local authority for land clearance while most of them think they get sufficient support from local authority;

Credit:

- Most of enterprises could borrow from commercial banks, but the borrowing procedure much more complex than borrowing from informal credit providers;

Infrastructure

- Electricity: most of enterprise thinks that electricity is good, but at a little bit high; only a few of them electricity is not good
- Water supply is generally good
- Telephone: Half thinks that telephone system is good and the remaining is not good;
- Infrastructure is improving;
- Monopoly in those industries --> Not so good quality

Local authority support:

- Local authority slowly dealt with problems that enterprises asked;
- Local authority developed a rather consistent policies such as developing ICs, encouraging and facilitating the development of enterprises or at least local authority has some support for development of enterprises;
- Most of them get some preferences from local authority;
- Administrative procedure is convenient and rather simple;

Communication with local authority:

- Face-to-face meetings or through telephone and official documents;

What the local authority has to do

- Help enterprises expand their markets including overseas market;
- Register the quality of products and trade marks;
- Ensure provision sufficient basic services;
- Keep social stability;
- More land for production; support enterprises enter ICs;
- Do what the local authority has said/promised;
- Access to capital.

2.2 Hung Yen

2.2.1 Hung Yen Province

Hung Yen has an advantageous geographical location for socio-economic development as it is a province located in the middle of the Red River Delta and in the Northern Key Economic Zone³⁷, bordering such provinces as Bac Giang, Hai Duong, Hai Phong, Thai Binh, Nam Dinh and Ha Tay. The province is well connected by road, rail, and water. The geographical location creates advantages for Hung Yen to develop its industrial sector toward industrialization and modernization.

Administratively, Hung Yen was re-established in 1997 from former Hai Hung, which was integrated from two provinces Hai Duong and Hung Yen in 1976, and now consists of Hung Yen town (the administrative center of the province, organized in 6 communes), and 9 districts (with 8 district towns and 146 rural hamlets). Nine districts are My Hao, Van Lam, Yen My, Khoai Chau, Van Giang, Phu Cu, Tien Lu, Kim Dong and An Thi.

Hung Yen is an agricultural province with many centuries of traditional rice production. It has an area of 923 km². In 2003, the province has a population of 1,113.5 thousands. Out of this, the number of working-age population is 561 thousand, among whom the majority are young, and the trained account for more than 20%.

In 1996, the year before re-establishment, the shares in local GDP of agricultural, industrial (including construction) and service sectors were 59.95%, 14.71% and 25.33%, respectively. Its industrial sector had not been developed. The equipment, technology and management in the industrial sector were generally obsolete. Traditional craft industry experienced a slow growth rate. There were few foreign and domestic investment projects. Plans to build industrial parks were not made.

During the 7 years after the re-establishment, Hung Yen experienced a relatively high economic growth. For the period from 1998 to 2003, provincial domestic product (PDP)³⁸

³⁷ According to Resolution of the Prime Minister 747/TTg, dated 11/9/1997, Northern Key Economic Zone includes Hanoi, Hai Duong, Hai Phong and Quang Ninh. According to Decree 145/2004/QĐ-TTg, dated 13/8/2004 Ha Tay, Bac Ninh and Vinh Phuc are supplemented to the Northern Key Economic Zone.

³⁸ According to General Statistical Office, Provincial Domestic Product (PDP) is the term equivalent to Gross Domestic Product (GDP) of the whole country but used for provincial economy. PDP in Hung Yen is compiled by Hung Yen Statistical Office.

in Hung Yen increased on average about 12% per annum, and the economic structure was transformed to the one with increasing industrial and services shares and decreasing agricultural share in total PDP. In 2003 the shares in PDP of agricultural, industrial (including construction) and service sectors were 35.34%, 33.18%, and 31.48%, respectively (Table 2.2.1). It is worthy to note that the share of industry in PDP increased from 15.03% in 1997 to 28.83% in 2003. It demonstrates that the industrial sector as well as infrastructure was gradually developed. Traffic was made convenient for goods and people transportation. The living standard improved much, PDP per capita increased from 2.45 million VND in 1997 to 5.11 million VND in 2003, nearly two times higher.

Table 2.2.1: Some Socio-economic indicators in Hung Yen

Items	Unit	2000	2001	2002	2003	2004	2005	2010
Population	Thous.per.	1083	1095	1105	1113	1127	1137	1187
PDP (1994 price)	Bill. VND	2978	3302	3703	4166	4694	5304	9452
- PDP growth rate	%	11.08	10.90	12.10	12.51	12.70	12.99	11
PDP (current price)	Bill. VND	4108	4508	5056	5685			
PDP (current price)	%	100.0 0	100.0 0	100.0 0	100.0 0			
- Agricultural sector	%	41.47	38.80	37.20	35.34			
- Industrial sector (incl. construction)	%	27.77	30.20	31.60	33.17			
<i>Of which, industry</i>	%	23.16	25.85	27.22	28.83			
- Services sector	%	30.76	30.99	31.20	31.48			
Industrial output (1994 price)	Bill. VND	2350	2831	3525	4555	5785	7325	19290
- SOE (incl. central and local ones)	Bill. VND	148	187	221	576	640	665	940
- Non-state sector	Bill. VND	534	1336	1762	2216	2900	3815	10500
- FIEs	Bill. VND	1668	1308	1542	1763	2245	2845	7850
Export	Mill. US\$	40	47	60	103	115	150	450
Import	Mill. US\$	50	55	63	138	156	185	500

Note: The figures in 2004 are estimated and the figures in 2005 and 2010 are planned.

Source: Hung Yen Statistical Office (2004) and Hung Yen DPI

i) General features of industrial production

In 1997, that was the time of re-establishment, the province's industrial output at 1994 price was VND 618,268 million and reached VND 4,555,806 million in 2003, 7.37 times as much as that in 1997. In 2003, the total industrial output was ranked the 18th out of 61 provinces, while in 1996 it was ranked the 41st out of 61 provinces nationwide.

The average growth rate of the industrial output for the period of 2000-2003 stands at

23.84% per year; among which the state-owned sector (central and local one) increased on average 52.82%; the non-state owned - 60.23% and the foreign direct invested sector - 7.33%. Importantly, private enterprises (including all private companies, private limited liability companies, private stock companies) have had remarkable results in industrial production; its growth rate is on average 170.20% for the period of 2000-2003.

In terms of industrial output by economic activities, the average growth rates of the mining and quarrying; manufacturing; and electricity, gas and water supply are 9.47; 42.32; 22.00 respectively for the period of 1998-2004 (Table 2.2.2). Especially, the average growth rate of manufacturing in Hung Yen is much higher than that of the country (on average about 16%). In manufacturing, food and beverage; garment; products from mineral non-metallic substance; metal; metallic products, television sets and communications equipment; and means of transport are main products and account for 9.03%; 5.55%; 16.13%, 12.61%; 27.66% and 14.96%, respectively, in 2003.

Table 2.2.2: Industrial output by economic activities at 1994 price

	1998	1999	2000	2001	2002	2003	Average 1998-2003
Total Output (million VND)	966,063	1,939,662	2,350,404	2,831,369	3,525,346	4,555,806	
Mining and Quarrying	8,540	7,473	8,982	7,729	8,421	10,009	
Manufacturing	956,988	1,931,743	2,340,875	2,822,839	3,515,872	4,544,439	
Electricity, Gas & Water Supply	535	446	547	801	1,053	1,358	
Growth Rate (%)							
Total	56.25	22.00	21.18	20.46	24.51	29.23	42.07
Mining and Quarrying	35.23	-12.49	20.19	-13.95	8.95	18.86	9.47
Manufacturing	56.50	101.86	21.18	20.59	24.55	29.25	42.32
Electricity, Gas & Water Supply	19.15	-16.64	22.65	46.44	31.46	28.96	22.00

Source: Hung Yen Statistical Office (2004), and our calculation

As regards the industrial output structure by ownership, the SOEs' share in the total industrial output tends to decrease due to the on-going SOE equitization. The growth of industrial sector is mainly attributed to the strong development of non-state-owned and foreign invested sectors. Concretely, the contribution of local SOEs, central SOEs, and household and mixed sector in the total industrial output accounts for 5.17%, 15.14%, and 37.94%, respectively, in 1997; while their contribution decreased to 1.56%, 10.71%, and 10.66% respectively in 2003. Meanwhile, the contribution of the foreign invested sector and private enterprises including limited companies and joint stock companies in the total industrial output increased from 34.98% and 4.60%, respectively, in 1997 to

38.71% and 38.08%, respectively, in 2003 (Table 2.2.3).

Table 2.2.3: Gross output of industrial sector at 1994 price

	Unit	1997	2000	2001	2002	2003
Total	Mill.VND	618268	2350404	2831369	3525346	4555806
A. Central (State-owned)	Mill.VND	93629	101314	123444	152876	488116
B. Local	Mill.VND	308394	581572	1400387	1819482	2303999
- State-owned	Mill.VND	31935	47321	64241	69176	71260
- Co-operative	Mill.VND	13450	10427	7601	11759	12030
- Household and mixed	Mill.VND	234554	358685	395876	437470	486075
- Private	Mill.VND	28455	165139	932669	1301077	1734634
C. Foreign invested sector	Mill.VND	216245	1667518	1307538	1552988	1763691
Total	%	100.00	100.00	100.00	100.00	100.00
A. Central (State-owned)	%	15.14	4.31	4.36	4.34	10.71
B. Local	%	49.88	24.74	49.46	51.61	50.57
- State-owned	%	5.17	2.01	2.27	1.96	1.56
- Co-operative	%	2.18	0.44	0.27	0.33	0.26
- Household and mixed	%	37.94	15.26	13.98	12.41	10.67
- Private	%	4.60	7.03	32.94	36.91	38.08
C. Foreign invested sector	%	34.98	70.95	46.18	44.05	38.71

Source: Hung Yen Statistical Office (2004), and our calculation

In terms of productivity, annual industrial output per employee increased dramatically from VND 16.46 million in 1997 to VND 66.54 million in 2003. Private enterprises and foreign invested enterprises have contributed to the increase in productivity. As shown in Table 2.2.4, in 2003 the annual industrial output per employee of the central state-owned industrial enterprises was VND 110.56 million, while that of private enterprises and of foreign invested enterprises were VND 142.50 and 184.29 million. The annual industrial output per employee of the central state-owned industrial enterprises equals to 78% of that of the private enterprises.

With regard to contribution to the local budget, there is no specific figure contributed by industry to local budget revenue. There are only local budget revenue data for all kinds of enterprises in Hung Yen. According to Hung Yen Statistical Office, up to now the contribution of Hung Yen enterprises has been around 11% of total local budget revenue, though in terms of absolute value it has increased (Table 2.2.5). Therefore, it can be concluded that industry in Hung Yen has still contributed minor share in the local budget revenue. This can be explained by two reasons. There are some enterprises in Hung Yen including industrial enterprises that are newly established and still enjoy exemption of taxes and/or some enterprises that enjoy low preferential tax rates. The other reason may be that in Hung Yen, there is a number of loss making enterprises, therefore they do not

have to pay some kinds of taxes such as enterprise's income tax.

Table 2.2.4: Employment and industrial output per employee by ownership, 1997-2003

	1997	2000	2001	2002	2003
Total employment (persons)	37,557	41,544	45,722	49,586	68,468
1. State	5,533	7,054	7,414	8,850	8,654
- Central	3,325	3,759	3,756	4,562	4,415
- Local	2,208	3,295	3,658	4,288	4,239
2. Co-operative	1,845	1,725	1,919	2,080	1,193
3. Household and mixed	28,656	30,136	32,305	31,313	36,878
4. Private	826	1,279	2,818	3,542	12,173
5. Foreign invested sector	697	1,350	1,266	3,801	9,570
Industrial output/employee ^a	16.46	56.58	61.93	71.10	66.54
1. State	22.69	21.07	25.31	25.09	64.64
- Central	28.16	26.95	32.87	33.51	110.56
- Local	14.46	14.36	17.56	16.13	16.81
2. Co-operative	7.29	6.04	3.96	5.65	10.08
3. Household and mixed	8.19	11.90	2.25	13.97	13.18
4. Private	34.45	29.12	330.97	367.33	142.50
5. Foreign invested sector	310.25	1,235.20	1,032.81	408.57	184.29

Note: a - 1994 price, million VND

Source: Hung Yen Statistical Office (2000, 2004), and our calculation

Table 2.2.5: Contribution to the local budget revenue by ownership (%)

	1997	1998	1999	2000	2001	2002	2003
Total local budget revenue	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Central state owned enterprises ^a	3.73	3.00	1.54	1.58	1.63	1.62	1.52
Local state owned enterprises ^a	0.61	0.67	0.78	0.91	0.45	0.46	0.35
Non-state owned sectors ^a	2.59	2.77	1.58	1.88	1.92	2.06	1.94
Foreign invested enterprises ^a	4.22	4.83	6.65	6.35	7.57	6.71	5.46
Other revenue ^b	31.65	41.34	39.97	36.55	36.71	42.78	53.88
Fund from Central budget	57.21	47.40	49.49	52.74	51.72	46.37	36.84

Note: a - including all types of taxes,

b - including tax on agricultural land use right, tax on import and export, tax on lottery, fee tax, and others revenue

Source: Hung Yen Statistical Office (2000, 2004), and our calculation

If the value added is taken into account, the share of value added in the industrial output in this period tends to decrease. While the share in the 1997-2000 period stood at 34-36%, the share in 2004 is just 25%. This reveals economic efficiency in industrial production has decreased, development of Hung Yen industrial sector has mainly been extensive, and the rate of processing and assembling in industrial production has been increasing. Manufacturing, especially tool and material manufacturing, has not been boosted and has low value added.

Industrial distribution in the province is uneven. Industries are attracted to Northern districts, areas along Road 5 and Hung Yen town. The structure of industrial distribution in 2003 is summarized as Van Lam accounting for 52.86%; My Hao 16.53%; Yen My 11.97%; and other districts a minor share of the provincial structure (only non-state-owned industrial sectors are counted). Only Van Lam, My Hao and Yen My experienced rapid growth rates and strong transformation of industrial structure by region for the period of 1997-2004. The remaining districts are still in the downward trends of the regional structure.

As a result, in 2004 the industrial output is VND 5.25 million/person, of which the highest number of VND 16.07 million belongs to Van Lam, then comes the number of My Hao and Yen My, the lowest number of around VND 0.35-0.57 million is of An Thi, Khoai Chau, and Van Giang. In short, there are big gaps in the industrial development in particular and economic development in general among towns/districts.

ii) Development/industrialization strategies, administrative procedures/services related to enterprises at provincial level

Hung Yen has developed a master plan for 1997-2010 and strategy direction to 2020, 10-year strategy of socio-economic development for 2001-2010, 5-year plan of socio-economic development for 2001-2005 and annual plans of socio-economic development. Indeed, the five-year plan is concretizing the ten-year plan. Now Hung Yen is preparing the five-year plan for 2006-2010.

a) Development/industrialization strategies

+ Goals of the Economic Development Strategy

The Hung Yen People's Committee and its departments and agencies recognized that Hung Yen needs to develop at a faster pace so that its economic growth rate will be as high as that of other average developing Northern Delta provinces. Moreover, the economic structure should be transformed in the direction of modernization and industrialization. Economic efficiency should be improved in order to increase capital formation.

Socio-economic development of Hung Yen should be considered in the close link with the Northern key economic zone. Its location near Hanoi and on 5A and 39A roads should be made the best use of so that industrial development, food and foodstuff, services, tourism and export should be enhanced. Besides, its coordination and cooperation with the central government, neighboring provinces and foreign countries should be exploited to the maximum.

Priorities should be given to infrastructure building and the improvement of currently low quality infrastructure to lay the ground for future development.

Economic development should go hand in hand with the medical, educational, cultural, and social development with a sustainable view, get out of poverty soon, and improve the living standards and education levels

Territorial organizations should be readjusted, the municipal system should be developed in close link with infrastructure, industrial and service activities and the establishment of industrial parks. Rural areas should be developed. The model of industrialized agriculture and rural areas should be built to transform the agricultural province with many centuries of traditional rice production.

Economic development should be closely linked with security reinforcement, resource, and environmental protection.

In terms of industrial production, industrial production should be fostered. High and sustainable growth rates should be speeded up; remarkable progress should be made in terms of quality and quantity as well as efficiency and competitiveness of products, especially processing products; highly competitive key products should be encouraged to develop; and priorities should be given to the industrial development of Southern districts. Moreover, mechanism and policies should be developed relevant to each area in specific periods. The private sector should be encouraged to develop; there should be policies to support the development of small and medium-sized enterprises and resolve labor and employment issues; projects to develop traditional handicraft villages should be carried out effectively.

+ *Main goals of the master plan for 1997-2010 and strategy direction to 2020:*

- Annual GDP growth rate for 2000-2010 is 12%, of which agricultural sector growth rate is 5%, industrial sector growth rate is between 18% and 20%, and service sector growth rate is 16.5% - 18%;
- Economic structure in 2010: agricultural sector-industrial sector (including construction) - service sector: 22-24% - 30-31% - 43-44%. (The change of the economic structure is on the way of industrialization and modernization)
- Annual export growth rate: 20% in the period 2001 - 2010 and 16-18% in the period 2010-2020.
- GDP per capita: US\$810 in 2010 and US\$2000 in 2020

+ *The plan targets of five-year plan for 2001-2005:*

- Annual GDP growth rate for 2000-2005: 10%

- Economic structure in 2005: agricultural sector-industrial sector (including construction) - service sector: 36%-30%-34%. Priorities are given for development of processing manufactures, garment, motorbikes, electronics and construction materials. Besides, traditional villages are restored for development of ceramic, textile, wooden art furniture, and embroidery products.
 - Export value in 2005: US\$ 90 millions
 - Annual export growth rate: 20% per year for the period 2001 - 2005.
 - GDP per capita in 2005: US\$ 500
- + *The preliminary plan targets of five-year plan for 2006-2010:*
- Annual GDP growth rate for 2006-2010 is 11%
 - Agricultural output increases 4.5 percent per year.
 - Industrial production increases by over 20 percent per year.
 - Services increase by 13 percent per year.
 - Economic structure in 2010: agricultural sector-industrial sector (including construction) - service sector: 20%-44%-36%.
 - Export value in 2010: US\$ 450 millions and annual export growth rate: 18% per year for the period 2006 - 2010.
 - GDP per capita in 2010: US\$ 850
 - Budget revenue reaches VND 1800 billion.
 - Population growth rate remains stable at 1.0% (within 5 years).
 - Hunger households are alleviated and the rate of poverty households is reduced to 1% in 2010.
 - 2.5 thousand jobs are created each year.

b) *Administrative procedures/services related to enterprises at provincial level*

The province employs various measures such as providing incentives, simplifying administrative procedures related to business establishment and activities, constructing industrial zones, and announcing them on their websites in order to attract investment projects.

+ *Investment attraction policies*

There are a number of investment attraction policies in Hung Yen, materializing investment attraction policies of the central government, such as Resolution 03/NQ-TU dated 20/6/1998 on strengthening cooperation of investment in Hung Yen, Decision 1088/1999/QĐ-UB dated 24/6/1999 on guide to implementing procedures to get

investment licenses³⁹.

Decision 1089/1999/QĐ-UB dated 24/6/1999 on management regulations of foreign direct investment projects and Decision 1088/1999/QĐ-UB directing the implementation of licensing issuance procedures in the province were promulgated to establish the legal basis for the consistent management of investment.

The resolution of the XV provincial Party congress and the resolution 09/NQ-TU dated 31/10/2001 of the provincial standing committee on fostering investment for the period of 2001-2005 affirmed that foreign direct investment and direct investment from other provinces play a vital role in developing production, generating employment, increasing budget revenue and fostering active integration. The decision 12/2003/QĐ-UB dated 18/03/2003 on rules of receiving direct internal and foreign investment projects in Hung Yen.

+ *Special regulation policies on the preferential treatment for investors*

In order to attract investment projects, Hung Yen People's Committee allows these projects to enjoy the highest-level investment incentives given by the central government. In order to attract the above-mentioned investment projects, Hung Yen government provides preferential incentives for these projects that meet the requirements of the socio-economic development of the province; the local government also promulgated the Decision 13/2003/QĐ-UB dated 18/3/2003 on preferential investment. According to the Decision 13/2003/QĐ-UB, the procedures to grant preferential investment certificates of investment projects are simplified and made faster. The local government encourages projects to invest in Hung Yen with the following purposes:

- using high-technology, having ability to act as an impetus to develop other economic activities;
- having quick return and contributing much more for the local budget;
- developing livestock breeding and foodstuff processing, and in the meantime using local material;
- creating more local jobs, particularly in the south of Hung Yen.

Hung Yen government provides preferential incentives for the above-mentioned projects that meet the requirements of the socio-economic development of the province. The preferential incentives of the local government are as follows:

³⁹ Hung Yen People's Committee has the right to issue investment licenses for direct investors with capital size that is less than US\$ five million.

- Supporting additional vocational training funds;
- Supporting additional funds for compensation of land use rights and land clearance and construction of infrastructure;
- Giving exemption of land rent (for domestic and foreign direct investment projects) for certain years and then continuing giving lower land rent than the lowest land rent set by the government for production purposes.

+ *Reforming administrative procedures*

As in other provinces of the country, in Hung Yen the provincial industrial zone managing board is the agency to accept and manage investment projects to industrial zones operating under the regulations of concentrated industrial zones. The Department of Planning and Investment helps the provincial People's Committee in receiving investment applications from enterprises. In addition, it coordinates with other responsible agencies such as Department of Construction, Department of Industry, etc. in evaluating investment projects asking to rent land and the Department of Natural Resources and Environment in carrying out procedures favorably for businesses to rent land and make production sites.

Since the early days of re-establishment, the province has directed relevant agencies and offices to simplify administrative procedures so that a favorable investment environment is created to attract investors. The Department of Planning and Investment becomes the sole agency to receive domestic and foreign investment applications. Procedures to register businesses are simplified in accordance with Law on Enterprises and relevant legal documents. The Business Registration Office in the Department of Planning and Investment discloses procedures, documents and time to grant business registration to anyone who has the demand for enterprise establishment.

Responsible agencies facilitate the performance of enterprises after registration such as publicizing information, registering tax code, opening bank accounts, and making schedule to implement all the above-mentioned tasks.

Provincial People's committee in Hung Yen, its departments and agencies and towns publicize procedures, documents and time to conduct duties relevant to enterprises. In addition, they implement administrative reforms to build a "one-door" mechanism, standardize documents and eliminate paper that is not practical.

+ *Policies/plans for Infrastructure development*

Hung Yen has had policies/plans to develop infrastructure including infrastructure for industrial clusters and zones since the time of the re-establishment. These plans, having

been supported by both central and local government, are based on the development plan of the Northern Key Economic Zone of the government and ten-year socio-economic master plan of Hung Yen. Therefore, the infrastructure of Hung Yen has remarkably been improved in the last 5 years. Hung Yen has a good transport system with important traffic routes running through the province, including overland roads, railways and river routes such as the Red River and Luoc River, as well as National Highway 5A and National Highway 39A. The completion of Yen Lenh Bridge construction in 2004 has a significant meaning to Hung Yen, opening many opportunities for the province to promote the exchange of relations with other localities nationwide and attract investment into industrial zones, industrial groups and occupational villages in the province.

+ *Establishment of industrial cluster, zones*

Establishing and developing industrial parks is one of critical solutions to speed up the development of industry in Hung Yen province. In order to attract investment and protect the environment, Hung Yen has developed 6 industrial zones, including: Nhu Quynh A, Nhu Quynh B, Pho Noi A, Pho Noi B, Minh Duc and Hung Yen and tries to develop 10 industrial clusters for craft villages. Planning these industrial zones and clusters are based on the approved socio-economic master plan of Hung Yen to 2010. The industrial zones are located alongside national roads and their technical infrastructure is still on the way to completion.

Six industrial zones (Table 2.2.6) are as follows:

- *Nhu Quynh A*: is 17 kilometers from Ha Noi, the area of Nhu Quynh A zone is 50 hectares. There are some investment projects in Nhu Quynh A, however there is no leading investor in infrastructure of the industrial zone.
- *Nhu Quynh B*: is 20 kilometers from Ha Noi; the area of Nhu Quynh B zone is planned about 40 hectares. There are some investment projects in Nhu Quynh B, however there is no leading investor in infrastructure of the industrial zone.
- *Pho noi A*: belongs to Lac Hong commune, lying closely on the highway 5 and the provincial route "206", which is 5 kilometers away from Lac Dao railway station. Favorable industrial activities are electronic assembling, tire and tube for motorcar, foot wear, cosmetics. Land area planned by Hung Yen People's Committee was about 100-150 hectares in 1998. Before December of 2002, there was not any approval for the industrial parks. In December 2002, the Hoa Phat Construction and Development Joint Stock Company, the leading investor, submitted proposals to Prime Minister with the scale of 390 hectares. The Government had the Official Letter no. 386/CP-CN on 4 April 2003 to

adjust the total areas of this industrial park from 100 hectares to 390 hectares and Hung Yen People's Committee was authorized to follow up other activities.

Table 2.2.6: Industrial Zones in Hung Yen

IP Zone	District	Existing infra. (electricity, road, water)	Infra. in the coming times (water treatment ...)	Rental price (US\$/m ² /year)	Priority to investors	Main industry	No. of regist. enter.
Nhu Quynh A	Van Lam	road, electricity	Water supply station and water treatment factory	0.18	Decision No. 13/QD- UB and other decision in each period	General	19
Nhu Quynh B	Van Lam	road, electricity	Water supply station and water treatment factory	0.15	Decision No. 13/QD-UB and other decision in each period	General	2
Minh Duc	My Hao	road, electricity	Water supply station and water treatment factory	0.15	Decision No. 13/QD- UB and other decision in each period	Steel, mechanic, pottery, electrical equipments, electrical, plastic and agricultural products	17
Hung Yen	Hung Yen	road, electricity	Water supply station and water treatment factory	0.15	Decision No. 13/QD- UB and other decision in each period	Clean industry and service	3
Pho Noi A	My Hao, Van Lam, Yen My	Electricity, road, water	Internal roads, water treatment	0.4	Exemption of land rental fees, income taxes, supporting for employments	Electrical, mechanic transportation, agricultural products, steel, consumers' products and textile	41
Pho Noi B	My Hao, Yen My	Electricity, road, water	Internal roads, water treatment	0.4	Exemption of land rental fees, income taxes, supporting for employments	Textile	4

Source: Hung Yen DPI

- *Pho noi B* lies in the South - East of Pho Noi urban centre of Hung Yen province. It has the master plan of industrial parks with total areas of 225 hectares, of which the Vietnam Textile Corporation is the leading investor in constructing textile industrial park with the areas of 95 hectares. The rest areas are approved for the Song Da Contruction Corporation. Currently, the textile industrial park is approved by the government, the

remaining of Pho Noi B IP is being proposed.

- *Cho Gao* (located in the north of Hung Yen town) lies on the route 39A. It is 4 kilometers away from the Hung Yen town in the North, which is very convenient for transportation, especially after enhancing the road 39A and building Yen Lenh Bridge. The Hung Yen town supplies electrical and water resource for Cho Gao. Cho Gao has the ability to develop area of 50 hectares with industrial zones, Favorable industrial activities are agricultural processing (flower, fruit, meat, jute...), producing beer, beverage, garments, leather products and other consumer goods.

- *Minh Duc zone*: Bach Sam Minh duc industrial park cluster is 28 km from Hanoi, which is now being planned with the total areas of about 200 ha.

Two industrial zones (pho noi A and B) are operated under the provincial Industrial Zone Management Board (established in 2003). Four industrial zones have been planned and submitted for the government approval.

The local government has also submitted proposals to the central government to develop 5 additional industrial zones. These five additional industrial zones will be located in the south of Hung Yen, alongside national roads 39A, 39B, 38. The local government expects that these five additional industrial zones will bring Yen Lenh bridge into play.

Three of 10 industrial clusters for craft villages are under operation. The local government hopes industrial clusters for craft villages will help boost industrial production and reduce environmental pollution and high rate of unemployment.

iii) *Process of local enterprise development and its background*

a) *Overall assessment on enterprise development in the province from 1997-2004*⁴⁰

+ *In terms of investment attraction:*

The Planning & Investment Department and the Industrial Zone Management Board of Hung Yen province play the role of central agencies to manage all investment projects in the province at the State level. These agencies provide investors with the information they need and give them necessary instructions so that they can complete investment formalities as quickly as possible. Applying such a management model, Hung Yen is attracting the attention of a growing number of domestic and foreign investors.

Thanks to sound policies and great efforts of provincial agencies and people, the province has made remarkable progress in investment. At the time of Hung Yen re-establishment,

⁴⁰ The figures of this section are provided by Hung Yen DPI.

only 5 foreign direct investment (FDI) projects and investment projects from other provinces were approved and granted investment licenses with the total capital of US\$ 61.43 millions and VND 35 billion. Two projects were put into operation.

From 1997 to June 30, 2004, there have been 292 investment projects in the province with the total registered capital of US\$ 759.8 millions, among which there are 43 FDI projects with the total registered capital of US\$ 135.3 millions and 214 domestic investment projects from other provinces with the total registered investment of US\$ 518.8 million (Table 2.2.7). Particularly, the first half of the year 2004, the number of projects that have been approved and granted investment licenses is 56, among which there are 6 FDI projects with the total registered capital of US\$ 5.4 million and 36 domestic investment projects from other provinces with the total registered capital of US\$ 119 million. The investment projects are mainly focused on industrial production such as garment, wooden furniture, car assembly, building materials, plastic and electric production.

Table 2.2.7: Investment projects, 1997-2004

Year	Total number of projects	Foreign inv. projects		Inv. projects from other provinces		State-owned inv. projects		Hung Yen inv. Projects	
		Number of projects	Registered capital (Thous. US\$)	Number of projects	Registered capital (Thous. US\$)	Number of projects	Registered capital (Thous. US\$)	Number of projects	Registered capital (Thous. US\$)
Before 1997	4	2	51,500	2	84,434	0	0	0	0
1997	4	0	0	4	92,157	0	0	0	0
1998	1	0	0	1	18,324	0	0	0	0
1999	3	0	0	3	112,478	0	0	0	0
2000	21	3	1,129	17	585,615	0	0	1	105,000
2001	31	3	20,452	22	811,995	4	100,104	2	40,093
2002	95	16	23,213	72	2,435,652	7	141,112	0	0
2003	77	13	33,614	57	2,133,389	1	27,918	6	364,413
June 2004	56	6	5,405	36	1,871,142	1	20,500	13	736,732
Total	292	43	135,313	214	8,145,186	13	289,634	22	1,246,238

Source: Hung Yen DPI

According to Hung Yen Statistic Office, the number of projects in operation in 2004 is 125 with implemented capital of about VND 5000 billion (about 44% registered capital), creating permanent jobs for 35,000 workers (particularly 15,000 workers were employed

only in 2004).

+ In terms of provision of preferential investment certificates

The total number of investment projects that has enjoyed preferential investment certificates is 161. From 1997 to 2002 there were 63 preferential investment certificates issued for the investment projects (in 1997 - 1, in 1998 - 5, in 1999 - 2, in 2000 - 6, in 2001 - 21, in 2002 - 28). The number of the certificates increases quickly, in 2003 there were 40 certificates issued for projects, for 9 months of 2004 - 58 certificates.

+ In terms of business establishment registration:

In conformity with implementing the government economic policies, Hung Yen has encouraged private sector and created conditions for its development. Therefore, together with trend of the country's private sector development, the private sector of Hung Yen has developed remarkably.

Before the re-establishment in 1997, the number of enterprises was only 40. After the re-establishment, few enterprises were registered. The enterprises mainly operated in trade and construction field during this period.

Until 01/01/2000, before the Law on Enterprises was officially in effect, only 75 enterprises in the region were registered for operation. When the Law on Enterprises was in effect in 2000, enterprises in Hung Yen have developed quickly in terms of quantity, capital, job creation, structural change and contribution to the local budget.

Until now, after 5 years of carrying out the Law on Enterprises, in Hung Yen there have been 664 enterprises registered with the total capital of VND 2,700,086 million and more than 60 branches and representing agencies. The number of private enterprises, limited liability enterprises and joint stock companies and their total registered capital is respectively 203, 412, 49 and VND 184,566 million, VND 1,889,410 million and VND 626,110 million (Table 2.2.8).

Average capital size of registered enterprises is VND 3.9 billion, higher than that in other provinces. Many enterprises (about 60% of total registered enterprises, of which 43 are foreign direct investment enterprises) were established in Hung Yen by investors that come from other provinces.

Newly registered enterprises in industry account for 40% of total number of enterprises and 71% of total capital. This result has contributed to an increase in the total industrial output and the transformation of the economic structure in Hung Yen toward modernization and industrialization.

Table 2.2.8: Newly registered enterprises as of June 2004

	Up to 1997	1997	1998	1999	2000	2001	2002	2003	June 2004	Total
Total enterprises										
Number	9	37	10	19	40	65	117	179	188	664
Capital (bill VND)	3.81	51.09	23.21	50.23	140.62	322.71	509.63	838.39	760.07	2700.06
<i>Of which</i>										
Private companies										
Number	5	18	7	11	16	23	31	34	58	203
Capital (bill VND)	0.831	3.75	0.95	1.96	9.96	35.74	23.51	31.87	75.99	184.57
Limited companies										
Number	4	19	3	8	22	36	79	129	112	412
Capital (bill VND)	2.75	47.38	22.77	48.17	97.56	137.83	421.82	691.16	419.99	1889.41
Joint stock companies										
Number	0	0	0	0	2	6	7	16	18	49
Capital (bill VND)	0	0	0	0	33.24	149.10	64.30	115.37	264.10	626.11

Source: Hung Yen Department of Planning and Investment (DPI)

+ *In terms of operating enterprises:*

At the time of re-establishment in 1997, Hung Yen had few industrial enterprises, namely 13 SOEs, 19 handicraft cooperatives, 9 private enterprises, and 8 limited companies. While traditional handicraft villages were lost in oblivion, these enterprises are small size ones with obsolete technology.

After 8 years of re-establishment, the number of establishments has increased fast due to enforcement of the Law on Enterprises (effective since 2000) and preferential investment regulations of the province. By the end of 2004, the number of registered enterprises would amount to over 700. Therefore, the number of operating enterprises including industrial ones has increased quickly.

By 2003, there were 17,751 industrial establishments/units in the province, of which the number of establishments in mining, manufacturing and electricity and water production and distribution is 70; 17,674 and 7, respectively (table 2.2.9). The changes in the number of industrial establishments/units over years are shown in table 2.2.9.

Regarding state-owned enterprises, there were 13 state-owned enterprises in 1997 (six central enterprises and seven local ones). Two local enterprises were set up by 2001. In compliance with the government policies on restructuring and equitizing SOEs, one central SOE was equitized in 2002. In 2003, two more local SOEs were equitized and a

new central SOE was established. As of 2003, the remaining number of SOEs is 12 (with four central and eight local SOEs). By the end of December, 2003 all equitized SOE with less than 50% state capital were transformed into private enterprises.

Table 2.2.9: The number of industrial establishments/units

	1997	2000	2001	2002	2003
Total	13756	14133	15177	16655	17751
A. Industrial establishments by ownership					
<i>I. Domestic economic sector</i>	13755	14130	15174	16645	17732
1. State owned enterprises	13	17	15	13	12
- Central	6	7	5	3	4
- Local	7	10	10	10	8
2. co-operatives	19	24	27	27	27
3. Household and mixed	13706	14059	15088	16550	17595
4. Private enterprises (all kinds)	17	30	44	55	98
<i>II. Foreign invested sector</i>	1	3	3	10	19
B. Industrial establishments by economic activity	13756	14133	15177	16655	17751
<i>I. Mining</i>	671	99	84	72	70
<i>II. Manufacturing</i>	13084	14033	15092	16582	17674
<i>III. Electricity and water</i>	1	1	1	1	7

Note: State owned enterprises in Table 2.2.9 are enterprises with 100% of state capital.

Source: Hung Yen Statistical Office (2004)

In terms of industrial co-operatives, after the provincial separation, some traditional craft co-operatives were established and improved in such fields as carpet weaving, silver making, and cane weaving, etc. The number of traditional craft co-operatives increased substantially from 19 in 1997 to 27 by 31 December 2003.

As regards private enterprises, this is a form of business that is being offered favorable conditions and incentives for development by the Party and the government. As a result, the number of private businesses increased remarkably from 17 in 1997 to 98 on 31 December 2003.

As regards foreign invested enterprises, this is also a business type that is being granted such incentives for investment by the province as infrastructure building, industrial zone establishment, tax exemption, quick land clearance, etc. The number of projects up to now has increased substantially. There were only three registered projects including one operating in 1997, while by 31 December 2003 the registered projects increased to 34 including 19 operating projects.

Concerning the number of industrial employment, the remarkable increase in employment in industry is owing to the increase in the number of industrial enterprises

and households (Table 2.2.10). The total employment in industry in 1997 was 37,557 while it increased to 68,790 by 31 December 2003, an increase of 1.83 times. As compared to the number in 1997, the highest increase of 11,539 workers belonged to the private sector, the foreign invested sector increased by 8,873 and individual households 8,222. Generally, the employment in these activities increased at a higher speed than the number of enterprises. It is mainly because the number of enterprises in textile and footwear processing for export and electronics and motorbike assembling has recently flourished, attracting a large number of workers. In the meantime, the employment in state-owned sector decreased by 0.63% as some enterprises were equitized and transformed into a new business type as mentioned above.

Table 2.2.10: Number of industrial employment

Unit: person

	1997	2001	2002	2003
Total	37557	45722	49586	68790
1. State	5533	7414	8850	8794
- Central	3325	3756	4562	4434
- Local	2208	3658	4288	4360
2. Co-operatives	1845	1919	2080	1193
3. Household and mixed	28656	32305	31313	36878
4. Private	826	2818	3542	12355
5. Foreign invested sector	697	1266	3801	9570

Source: Hung Yen Statistical Office (2004).

In 2003, the employment in industrial sector constituted 10.73% of the total employment in all economic sectors, while it made up for only 9.5% in 2002 and 6.8% in 1997. The amount of employed labor with college qualifications and higher accounts for a minor share, merely 1.52%; that with technical secondary qualifications 3.2%; and that with vocational training 94% of all the provincial industrial labor.

The distribution of employment in industrial activities is not even. Such activities attracting the most employment can be counted as processing industries, of which beverage production attracts 13,882 workers; metal production 5,235 workers; wood and interior equipment 7,348 workers; building materials 6,958 workers; textile 15,160 workers and wood manufacturing 5,365 workers.

Increases in number of industrial establishments and employment over the recent years have resulted in critical changes in labor structure of the provincial economy. The share of employment in industrial sector has been on an upward trend, moving in an opposite

direction with that in agricultural sector. The share of employment in industrial sector accounted for only 6.9% in 1997 and increased to 8.3% and 9.9% in 2001 and 2003 respectively.

b) Challenges of enterprises in the modernization and industrialization in the province.

Besides remarkable results in Hung Yen in terms of industrial development as mentioned in the above sections, enterprises in the province are facing a lot of difficulties and challenges in the recent years.

- There are still few newly registered enterprises coming from Hung Yen province;
- Some officials and people in the investment receiving areas lack sufficient and objective awareness; therefore, the procedures of selecting production sites and compensation for land clearance are conducted at slow pace. Experience of accessing information and attracting investment is limited.
- Though local workers have been trained, they have insufficient awareness, knowledge and negative attitude towards discipline. Their ability to use modern technology is limited.
- Infrastructure in industrial zones is not well developed, and traffic has not met the demand of enterprises. The environment in these industrial zones is polluted and there have not been any treatment measures.
- Plans to build infrastructure such as internal road, electricity and supporting works like water supply, landfill, rubbish disposal, and houses for labor and training centers for industrial zones are not made consistently.

2.2.2 My Hao District, Hung Yen Province

a) Some features of My Hao district

In the year 1999, My Van district has divided into Van Lam and My Hao districts and some communes have been transferred to Yen My district. My hao borders with Van Lam district, Yen My district, An Thi district and Hai Duong Province. My Hao district has enjoyed favourable geographical position, 13 communes and My Hao town of My Hao district are located alongside National road 5 and near Hanoi capital.

The advantages of My Hao are clement weather, favourable and concord among My Hao people. People from My Hao welcome investors, because My Hao district is underdeveloped and they expect to develop My Hao.

The good position of My Hao facilitates goods transportation, transactions and circulation.

Hung Yen also provides many promotion policies to call for domestic and foreign investors to the province. The Decisions on the establishment of and planning for Pho Noi A, Pho Noi B, and Minh Duc industrial zones have further facilitated investment environment in the province. A Textile and Garments development strategy of Hung Yen district has been formulated. The establishment of Pho Noi Textile and Garment Industrial Zone has accelerated the development of this key sector as it is a major source of job creation and helps to foster labor restructuring toward industrialization and modernization. The number of enterprises operating in this sector has increased from none to 10 enterprises, attracting more than 4,000 employees. There will be further increase in this number as the Pho Noi Industrial Zone is completed and comes into operation.

b) The role of My Hao's local government in the development of enterprises

+ *Task assignment and coordination among departments of the district in designing and implementing strategies and administrative procedures:*

My Hao district is given great concern from many governmental agencies because it complies with all government's policies and provincial regulation (for example, the province's resolution 03/NQ-TU dated 20/6/1998, Decision 13/2003/QD-UB dated 18/3/2003 on preferential investment) and follows the national strategy of industrialization and modernization. Moreover, the district is aware that it is a poor district; therefore, the district's government has actively coordinated with provincial government in allocating land for the planning of industrial zones (Pho Noi A, Pho Noi B and Minh Duc), carrying out investment appraisal, enhancing and developing infrastructure. Especially, the local government has closely coordinated with communes and towns under the planned area to produce timely measures and policies dealing with problems incurred in site clearance for enterprises.

Concerning development planning, the District People's Committee has coordinated with line departments (Industrial Department, Planning and Investment Department, Science and Technology Department, and Agricultural and Rural Development Department), mobilizing support and assistance from central agencies or organizations in order to formulate the master plan for socio-economic development including industrial zone development plan. Land use planning up to 2010 has been produced. The People's Committee has also carried out measures to solve the problem of redundant workers such as providing training for workers, requesting enterprises' commitments on settling down redundant workers after accessing to cleared production site.

To develop business performance in the district, People's Committee has also submitted to Chairman of Provincial People's Committee the planning and socio-economic development proposals of the district. It is also making plan for targeted sectors and areas to serve as basis for approval and acceptance of investment projects.

+ *The participation of enterprises in the compilation and implementation of strategies and administrative procedures:*

Based on such investment promotion policies, enterprises have had approval for appropriate and efficient projects that commit to resolve problems of redundant workers in the district. The province also set up the association of enterprises that review and assess investment attraction activities annually. Firms also have opportunities to express both their advantages and disadvantages in running business that help the province to carry out timely solutions to the incurred problems

c) General assessment on the development of enterprises from 1997 to 2003.

My Hao district possesses a less advantaged geographical position compared to Van Lam district with dispersed allocation of its industrial zones. The number of enterprises in this district is not large, mostly in textile and garment, or construction sector. The figure for 2001 was 20, increasing to 49 in 2003, of which 19 are limited liability companies, and 3 are joint stock companies.

The allocation of enterprises in the district is uneven, mostly concentrating in Pho Noi A and Pho Noi B area (along and aligning with National Road No. 5). The remote and disadvantaged areas in the district have not attracted investors yet.

The key sectors targeted for development in the district are textile and garment outsourcing for export, agricultural produce and foodstuff processing, waste recycling, automobile assembly and manufacturing...

The average capital size of local enterprises is equivalent to just 55% of that of Van Lam district's enterprises. The average amount of capital per enterprise increased from VND 9,297 million in 2001 to VND 16,208 million in 2003, by 74.33%; of which the owner's equity increased from VND 4,858 million to VND 6,234 million, or 28.32%. While the increase in the amount of capital is not remarkable mostly thanks to the entries of foreign invested enterprises in the year 2003, the number of enterprises has increased. This situation implies that most of the investment projects in the district are at small scale, with low investment capital and minor job creation effect.

As the key sectors are textile and garment and automobile assembly, the number of

employees has increased substantially also thanks to the entries of foreign invested enterprises in the year 2003. Despite this fact, the number of employees in each enterprise in this district is only 80% of Van Lam's corresponding figure. This figure moreover varies among different kinds of enterprises. The biggest gap is 50 times.

Despite limited increase in the number of firms, the performance has notably improved. Joint stock companies have registered the strongest growth with an increase of 2.4 times, accounting for 30.34% of total revenue of all enterprises. However, this result is still quite modest in comparison with the result of enterprises in Van Lam district. In 2003, the average revenue of a Van Lam enterprise is VND 67.4 billion while that of My Hao is only VND 15.9 billion (equivalent to 23.6%).

It is good that contribution to state budget is substantial, from VND 2.2 billion in 2001 to VND 140.8 billion in 2003. The major increase comes from 03 newly established foreign invested enterprises with the contribution of VND 118.3 billion, accounting for 84.02%. Most of the contribution is from taxation on imported material.

d) Analysis on 7 garment enterprises in My Hao District.

Based on the survey on enterprises conducted by Hung Yen Statistical Office in 2003, we found that there are 22 garment enterprises (code 1810⁴¹) in Hung Yen. Out of that there are 7 enterprises in My Hao. The 7 enterprises (Enterprise A, Enterprise B, Enterprise C, Enterprise D, Enterprise E, Enterprise F, and Enterprise G) in My Hao were selected for CIEM's survey, because they can be seen as "labor-intensive" industry. Only Enterprise C was established in 1999, while other enterprises were newly established after 2000 when Law on Enterprises came into effect.

Some indicators

Four enterprises have garment products, while another one has jackets or shirts as its main products.

As shown in Table 2.2.11, Enterprise A and Enterprise E are leading companies in the sector in My Hao regarding revenue and employees, income per employees. Enterprise A, Enterprise B and Enterprise E have high ratio of equity to capital, 83.86%, 98.33% and 64.99% respectively. The contribution of 7 garment enterprises to budget is not even. Enterprise C, Enterprise E and Enterprise F contributed VND 1,237 million, VND 825

⁴¹ The code mentioned here is based on the classification of economic activities by General Statistical Office.

million and VND 721 million respectively in 2003, while others seem to contribute less than VND 20 million each.

The labor intensive enterprises have more employees per enterprise than that of average industrial enterprises in Hung Yen. Particularly, Enterprise E has 1,450 employees in 2003.

Linkage - input (Table 2.2.13)

The input for 'labor-intensive' enterprises is mostly imported, about 90% of total input. Other than that, Northern provinces is main supplier for these enterprises, they provide the share accounting for 8% of total input.

Linkage - output (Table 2.2.14 and Table 2.2.15)

+ *By location*: output of 'labor-intensive' enterprises is mostly for export, which on average accounts for 90%.

+ *By form of enterprises*: clients-consumers of output of 'labor-intensive' enterprises from our survey in My Hao are from the rest of the world. It means that products of 'labor-intensive' enterprises are for export, accounting for 99% of total output.

Important factors to development of 'labor-intensive' enterprises (Table 2.2.16)

According to the 'labor-intensive' enterprises, the most important factors to enterprise development are good quality of products; access to market, good marketing and trademark, and cheap labor;.

Problems to development of 'labor-intensive' enterprises

The 'labor-intensive' enterprises admitted that the most serious obstacles to enterprise development are competition, labor discipline and capital.

Solution of 'labor-intensive' enterprises to problems to their development

They recognize that they need to improve their quality of products and train labor.

Regarding business environment

Their opinions are as follows: in the province there is a lack of electricity and unstable supply of electricity. However infrastructure is good in terms of transportation and administrative procedure is acceptable and simple.

d) Challenges in industrialization, and modernization in My Hao through the survey and interviews.

The relationship between enterprises and local authority is not good enough. The coordination among local governments (commune and town's governments) in site

clearance, and compensation for agricultural land loss is weak, and slow. Many areas have been stuck with outstanding problems that prevent enterprises from coming into operation.

The construction and operation of Road No.10 and No.18 will undermine the comparative advantage of this area.

A majority of projects with high investment capital and large number of employees have been doing business in textile and garment, footwear subcontracts for export. Those projects have not utilized high-level technology that produces more competitive products on international market.

Because only a small number of enterprises use local raw materials, the local potential such as processing of agricultural foodstuff products has not been optimally utilized. In the case of 7 garment enterprises surveyed, their inputs are mostly imported.

Most projects lie on the road while there has not been a drainage system and they are located near residential areas, which might result in environmental pollution. It is attributed to the fact that the site for each project is provided orderly and the district can not arrange the sites as well as Gia Lam or Nomura. Another reason is that building infrastructure is so costly that My Hao district can not afford.

The relative sizes of industrial sector, services and agriculture in the economic structure were respectively 13%, 12%, and 75% before 1999 and 55%, 18%, and 27% in 2004. The growth of the service sector is not compatible with that of the industrial sectors.

In terms of labor, roughly 1,000 locals are employed; however, they are not keen on textile and garment. There haven't been any colleges that provide vocational training courses. Highly skilled workers are not sufficient; consequently, they are employed from Hanoi.

Table 2.2.11: Revenue, employees and wages of 'labor-intensive' enterprises in My Hao from our survey

	2000	2001	2002	2003	Jan-Jun 2004
Revenue (million VND)					
Enterprise A				6,144	4,200
Enterprise B				51,047	37,500
Enterprise C	6,000	9,000	10,434	11,150	6,500
Enterprise D			10,308	20,432	12,198
Enterprise E		14,496	28,001	52,504	32,626
Enterprise F				1,474	900
Enterprise G				7,728	3,900
Employees (person)					
Enterprise A			332	920	930
Enterprise B				122	254
Enterprise C	250	300	320	320	350
Enterprise D		400	415	800	810
Enterprise E	540	600	1,000	1,222	1,450
Enterprise F				239	249
Enterprise G				305	317
				561	
Wage/employee/month (VND)					
Enterprise A				650,000	750,000
Enterprise B				750,000	859,494
Enterprise C	600,000	650,000	700,000	748,000	905,000
Enterprise D			600,000	630,000	750,000
Enterprise E	750,000	950,000	1,150,000	1,350,000	1,500,000
Enterprise F				800,000	850,000
Enterprise G				650,000	720,000

Source: CIEM's survey

Table 2.2.12: Capital, equity/capital and budget contribution of 'labor-intensive' enterprises

	2000	2001	2002	2003
Capital (million VND)				
Enterprise A			6,558	25,764
Enterprise B	9,658	12,125	14,449	16,108
Enterprise C		13,013	15,691	12,058
Enterprise D		15,207	30,397	26,759
Enterprise E				37,686
Enterprise F				10,000
Enterprise G				14,940
Equity/capital (%)				
Enterprise A				83.86
Enterprise B			99.56	98.33
Enterprise C	72.43	67.81	59.24	64.99
Enterprise D		25.94	26.03	14.73
Enterprise E		56.57	41.58	47.10
Enterprise F				35.06
Enterprise G				5.19
Contribution to the budget (million VND)				
Enterprise A				5
Enterprise B			3	15
Enterprise C		894	1,100	1,237
Enterprise D		11	57	2
Enterprise E		1,100	151	825
Enterprise F				721
Enterprise G				1

Source: CIEM's survey

Table 2.2.13: The sources of input for "labor-intensive" enterprises from our survey (%)

	Enter. A	Enter. B	Enter. C	Enter. D	Enter. E	Enter. F	Enter. G
Within the province				2			
Southern provinces		20					
Central provinces							
Northern provinces	5	30	5		1	7	5
Import	95	50	95	98	99	93	95

Total	100	100	100	100	100	100	100
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Source: CIEM's survey

Table 2.2.14: Buyers of 'labor-intensive' enterprises by type of customers (%)

Buyers/customers	Enter. A	Enter. B	Enter. C	Enter. D	Enter. E	Enter. F	Enter. G
-SOEs			85				
-End users							
-Private enterprises					0.3		
-Retail units							
-Wholesale units							
-FDI enterprises			15		0.7		
-Export	100	100		100	99	100	100
Total	100	100	100	100	100	100	100

Source: CIEM's survey

Table 2.2.15: Consumers of 'labor-intensive' enterprises, by location (%)

Buyers/customers	Enter. A	Enter. B	Enter. C	Enter. D	Enter. E	Enter. F	Enter. G
-Within the province							
-Southern provinces							
-Central provinces							
-Northern provinces			100		1		
-Import	100	100		100	99	100	100
Total	100	100	100	100	100	100	100

Source: CIEM's survey

Table 2.2.16: Important factors for development of 'labor-intensive' enterprises

	Quality of goods	Access to market, marketing, trade mark	Cheap labor cost	Manage- ment	Machinery	Demand for goods
Enterprise A	x	x	x			
Enterprise B		x	x			x
Enterprise C		x			x	
Enterprise D	x	x	x			

Enterprise E	x			x		
Enterprise F	x	x			x	
Enterprise G	x		x			

Source: CIEM's survey

2.2.3 Van Lam District, Hung Yen Province

a) Some features of Van Lam district from 1999 up to now.

In 1999, the former My Van district was divided into two districts: Van Lam district and My Hao district. Van Lam is a plain's district in the north of Hung Yen province. Van Lam district possesses favorable geographical position, which is located alongside National Road No 5 and convenient for transportation and communication. Its north borders Bac Ninh, its west - Ha noi, its south - Van Giang, Yen My and My Hao.

In 2003, the total area of Van Lam is 74.42 km², its population is 96,922 people. Van Lam is considered as one of the important economic “engine” districts of Hung Yen province. Hung Yen's authorities at provincial and district's level have provided domestic and foreign investors with attractive incentives to invest in the area. Since Hung Yen Province's People's Committee decided to establish Nhu Quynh A and Nhu Quynh B industrial zones, and several traditional craft villages (such as the village recycling plastic in Minh Khai hamlet, village recycling lead in Dong Mai hamlet, Chi Dao commune in the province), Van Lam district has become a district with a more favorable environment for investment than other districts in the province.

The industrial output of Van Lam has increased sharply since 2000. Some industries that have enjoyed robust growth are steel tube, and steel production, motorcycle manufacturing, electronic production and assembly, production of plastic bags, etc.

In 2001, industrial output at 1994 price reached VND 1,731,155 million, of which VND 686,300 million were from non-state economy, equivalent to 39.4%, and VND 1,044,855 million from foreign invested industries, equal to 60.6%. In 2002, industrial output reached VND 2,110,729 million, of which VND 983,414 million were from non-state sector, or 46.6% equivalently, increased by 28.12% compared to that of 2001, and VND 1,127,315 million originated from foreign invested industries, equivalent to 53.4%. In 2003, industrial output was VND 2,716,702 million, of which VND 1,260,608 million was from non-state sector, increasing by 29.44 % compared to the previous year.

b) Role of the local government in enterprises' development toward modernization and industrialization.

+ *Task assignment and coordination among departments of the district in designing and implementing strategies and administrative procedures:*

Implementing policies on investment promotion and enterprise's development, the district's government has actively coordinated with provincial government in allocating

land for the planning of industrial zones, carrying out appraisal of investment projects in the district, developing infrastructure of industrial zones. Especially, the district's government has closely coordinated with communes and towns under the planned area to develop measures and policies dealing with problems incurred in site clearance for enterprises in a timely manner.

Regarding socio-economic development in the district, the district's People's Committee has coordinated with line departments (such as Department of Industry, Department of Planning and Investment, Department of Science and Technology and Department of Agriculture and Rural Development) and mobilized support and assistance from central agencies or organizations in order to formulate the district's master plan for socio-economic development including industrial zone development plan.

As regards land use planning, the district's People's Committee has coordinated with Department of Agriculture and Rural Development and Department of Land to make up land use plans up to 2010 in general and land use plans for industrial zones in particular. Then, the district's People's Committee has introduced measures to solve the problem of redundant rural labor such as providing training course for them, requiring enterprises' commitments on settling down local redundant labor after getting production sites cleared.

+ The participation of enterprises in the compilation and implementation of strategies and administrative procedures:

Considering preferential investment policies, enterprises have built and proposed appropriate projects to the provincial People's Committee for approval.

Most investment projects in the district have been provided with supporting fund for production site's clearance according to decisions of the provincial People's Committee (such as Decision 13/2003/QĐ-UB dated 18/3/2003 on preferential investment). Moreover, enterprises have also committed to the provincial People's Committee to resolve problems of redundant labor in the district.

The province has set up the association of enterprises that review and assess investment attraction activities annually. Through meetings of the association, enterprises have opportunities to express both their advantages and disadvantages in doing business related to infrastructure, labor training, capital fund, expanding production sites, tax exemption and so on. Based on opinions of enterprises in meetings, the province considers incurred problems and carries out solutions to these problems in a timely manner.

In response to favourable promotion policies, enterprises in Vam Lam have actively

operated in accordance with their registered license and created jobs for local people.

c) General assessment of the enterprise's development in the district from 1997 to 2003.

Thanks to its advantages, Van Lam has attracted many investment projects from both local and foreign enterprises to the two industrial zones. These investment projects are in the fields of manufacturing electric machinery and equipment, electronic parts and components. Newly registered enterprises increased from five enterprises in 2000 to 64 enterprises in 2003 and for only six months of 2004, there were 35 newly registered enterprises. Of which, the number of total newly registered industrial enterprises reached 79 and accounted for over half of the total newly registered enterprises. The average capital per newly registered industrial enterprise is 1.6 times higher than that per general newly registered enterprise (Table 2.2.17).

Table 2.2.17: Total newly registered enterprises including industrial ones in Van Lam

	2000	2001	2002	2003	Jun-04	2000-2004
Total enterprises						
Number	5	16	27	64	35	147
Average capital (mill. VND)	872	4002	2657	7504	9096	4826
Industrial enterprises						
Number	2	10	14	39	14	79
Average capital (mill. VND)	9250	8666	2657	9149	8107	7566
Private companies						
Number	1	2	1	7	1	
Average capital (mill. VND)	293	700	1100	917	15000	
Industrial enterprises						
Number	0	0	1	3	1	
Average capital (mill. VND)			1100	2117	15000	
Limited companies						
Number	4	13	17	48	30	
Average capital (mill. VND)	1450	7304	5872	6656	4837	
Industrial enterprises						
Number	2	10	12	31	11	
Average capital (mill. VND)	9250	8666	5872	6216	4320	
Joint stock companies						
Number		1	1	9	4	
Average capital (mill. VND)			1000	14939	7450	
Industrial enterprises						
Number			1	5	2	
Average capital (mill. VND)			1000	19114	5000	

Source: Hung Yen DPI and our calculation

The number of operating enterprises increased rapidly, especially that of non-state and

foreign invested enterprises thanks to the district's advantages of geographical location and of establishing industrial zones. In 2001 in the district there were only 38 enterprises, while in 2003 there were 64 enterprises (Table 2.2.18). Out of operating enterprises, the number of private enterprises has been unchanged, 11 enterprises; limited companies increased sharply from 14 enterprises in 2001 to 32 enterprises in 2003; joint stock companies increased from 1 to 8; and foreign direct invested enterprises increased from 4 to 7. Eighty per cent of all enterprises are situated at the Nhu Quynh Industrial Zone (along National Road No.5). Other enterprises that are small size ones are located discretely in Van Lam district.

The number of operating industrial enterprises also increased from 19 enterprises in 2001 to 42 enterprises in 2003, equivalent to 65.62% of total operating enterprises in the district. All the operating industrial enterprises in the district are non-state owned enterprises as shown in Table 2.2.18.

Table 2.2.18: The number of operating enterprises by ownership, 2001-2003

Unit: number of enterprise

	2001	2002	2003
Total enterprises	38	40	64
State-owned enterprises	3	2	1
Co-operatives	6	6	5
Private enterprises	11	8	11
Limited companies	14	18	32
Joint stock companies	1	2	8
Foreign invested enterprises	4	4	7
Total industrial enterprises	19	20	42
State-owned enterprises	0	0	0
Co-operatives	1	1	0
Private enterprises	4	3	5
Limited companies	9	10	24
Joint stock companies	1	2	6
Foreign invested enterprises	4	4	7

Source: Hung Yen Statistical Office: Survey on enterprises 2001, 2002 and 2003, and our calculation

The capital volume in each enterprise has demonstrated a increasing trend over the years, though it is not as fast as the increase in number of enterprises (Table 2.2.19). Average capital per enterprise in Van Lam increased from 42,534 million VND in 2001 to 48,552

million VND in 2003. However, the sector that experienced the largest decrease in volume of capital is joint stock sector.

It is the careless approval of investment projects that brought about many small projects with minor job creation effect and low production efficiency. Moreover, the demand for capital of enterprises is very high as the proportion of owner's equity is small, mainly borrowing, and also shows a declining trend. The average equity per enterprise decreased from VND 20,646 million in 2001 to VND 17,597 million in 2003.

The volume of capital in each industrial enterprise has demonstrated a decreasing trend over the years. The average capital per industrial enterprise in Van Lam decreased from VND 79,307 million in 2001 to VND 70,227 million in 2003. The average equity per industrial enterprise decreased from VND 40,502 million in 2001 to VND 25,690 million in 2003. The decreasing trend of average capital per industrial enterprise in Van Lam over the years can be explained by the fact that many new enterprises with a small capital size have come into operation.

Table 2.2.19: Average capital and equity per enterprise in Van Lam, 2001-2003

Unit: million VND

	2001		2002		2003	
	Total Capital	Of which: Equity	Total Capital	Of which: Equity	Total Capital	Of which: Equity
Total enterprises	42,534	20,646	54,746	25,322	48,552	17,597
State-owned enterprises	35,201	-2,257	40,251	2,294	4,098	2,851
Co-operatives	3,161	1,147	3,159	2,518	3,840	1,978
Private enterprises	1,004	802	1,265	724	2,059	1,192
Limited companies	31,216	17,253	39,543	24,354	32,534	11,994
Joint stock companies	199,036	86,941	194,975	28,885	87,955	17,934
Foreign invested enterprises	361,058	188,889	372,851	208,836	188,713	79,461
Total industrial enterprises	79,307	40,502	103,169	48,844	70,227	25,690
State-owned enterprises						
Co-operatives	690	660	675	645		
Private enterprises	439	345	837	524	1,520	998
Limited companies	47,280	26,189	69,172	42,566	42,235	15,235
Joint stock companies	199,036	86,941	194,975	28,885	101,942	22,546
Foreign invested enterprises	361,058	188,889	372,851	208,836	188,713	79,461

Source: Hung Yen Statistical Office: Survey on Enterprises 2001, 2002 and 2003, and our calculation

It is noted that the average capital as well as the average equity per industrial enterprise is

higher than that of per general enterprise in Van Lam.

The average number of employees is large in foreign invested enterprises in general as well as in industrial enterprises in particular, 751 employees in 2003. The private enterprises have a small number of employees, about ten persons. The limited liability enterprise sector has experienced substantial decrease in number of employees. It also implies that over the past years, a majority of newly established enterprises in this sector are small and medium enterprises. Joint stock companies enjoyed increasing average number of employees in general enterprises as well as in industrial enterprises. The average number of employees in industrial enterprises increased from 57 employees in 2001 to 113 employees (Table 2.2.20).

Table 2.2.20: Average number of employees per enterprise in Van Lam, 2001-2003

Unit: number of employee

	2001	2002	2003
Total enterprises	107	168	160
State-owned enterprises	320	305	65
Co-operatives	11	12	10
Private enterprises	13	9	14
Limited companies	133	161	125
Joint stock companies	57	109	136
Foreign invested enterprises	574	858	751
Total industrial enterprises	171	288	224
State-owned enterprises			
Co-operatives	19	25	
Private enterprises	13	12	15
Limited companies	199	263	157
Joint stock companies	57	109	113
Foreign invested enterprises	574	858	751

Source: Hung Yen Statistical Office: Survey on enterprises 2001, 2002 and 2003, and our calculation

Although the average revenue per industrial enterprise in Van Lam is higher than that of general enterprise, the average revenue per industrial enterprise tends to decrease from 105,030 million VND in 2001 to 98,166 million VND in 2003 (Table 2.2.21). The average revenue per foreign invested industrial enterprise is the highest among all types of enterprises. This implies that non-state owned domestic enterprises are very small in size in terms of revenue.

Table 2.2.21: Average revenue per enterprise in Van Lam, 2001-2003*Unit: million VND*

	2001	2002	2003
Total enterprises	55,535	61,671	67,428
State-owned enterprises	16,258	17,068	1,953
Co-operatives	540	198	856
Private enterprises	5,786	10,999	9,712
Limited companies	34,160	35,254	48,732
Joint stock companies	165,750	93,536	92,529
Foreign invested enterprises	531,506	487,775	296,324
Total industrial enterprises	105,030	115,504	98,166
State-owned enterprises			
Co-operatives	250	235	
Private enterprises	894	795	1,858
Limited companies	51,006	59,851	63,064
Joint stock companies	165,750	93,536	116,247
Foreign invested enterprises	531,506	487,775	296,324

Source: Hung Yen Statistical Office: Survey on enterprises 2001, 2002 and 2003, and our calculation

Table 2.2.22: Average income per employee in enterprises in Van Lam, 2001-2003*Unit: Thousands VND/month*

	2001	2002	2003
Total enterprises	608	790	1,117
State-owned enterprises	468	504	694
Co-operatives	395	709	673
Private enterprises	463	578	691
Limited companies	551	661	933
Joint stock companies	751	704	1,229
Foreign invested enterprises	1,775	1,956	2,868
Total industrial enterprises	725	906	1,302
State-owned enterprises			
Co-operatives	149	207	0
Private enterprises	412	418	772
Limited companies	553	683	981
Joint stock companies	751	704	1,191
Foreign invested enterprises	1,775	1,956	2,868

Source: Hung Yen Statistical Office: Survey on enterprises 2001, 2002 and 2003, and our calculation

In 2003, the average income per month per employee in enterprises in general as well as in industrial enterprises in particular increased nearly 2 times compared to that in 2001.

The average income per month per employee in foreign invested enterprises is the highest of all types of enterprises, 2,868 thousands VND in 2003 (Table 2.2.22).

Regarding contribution to the State budget, enterprises in Van Lam contributed an increasing amount to the budget of the province and the district. As Table 2.2.23 shows that in 2001 and 2002, the contribution to the State budget of enterprises in this district was VND 52,365.4 million and VND 173,308 million, respectively, the latter was 228.4 % higher than the former. In 2003 the amount of this contribution was VND 231,736 million, increased by 33.71% compared to 2002.

In 2003 foreign invested enterprises contributed the largest share of total contribution to the budget of the province and the district, VND 135,856 million, accounting for 58.79%. Then, limited companies contributed VND 85,390 million, equal to 36.95%. All the foreign invested enterprises and limited companies are industrial enterprises. This is one of the most important sources of income for the local budget, proving the potential of the province in general and the district in particular.

It is noted that 98% of the amount contributed to the budget of the province and the district is from industrial enterprises as shown in Table 2.2.23.

Table 2.2.23: The contribution of enterprises to the budget in Van Lam, 2001-2003

Unit: Million VND

	2001	2002	2003
Total enterprises	52,365	173,308	231,736
State-owned enterprises	126	149	120
Co-operatives	76	156	142
Private enterprises	541	673	1,289
Limited companies	8,022	11,105	85,390
Joint stock companies	0	11,828	8,939
Foreign invested enterprises	43,601	149,398	135,856
Total industrial enterprises	51,730	172,086	229,260
State-owned enterprises			
Co-operatives	4	5	0
Private enterprises	34	35	239
Limited companies	8,092	10,820	84,352
Joint stock companies			
Foreign invested enterprises	43,601	149,398	135,856

Source: Hung Yen Statistical Office: Survey on enterprises 2001, 2002 and 2003, and our calculation

It is obvious that the non-state sector has been playing the most important role in the development of the production in the district.

d) Analysis on enterprises manufacturing electric machinery and equipment, electronic parts and components; and recycling plastic and lead in Van Lam District.

As Van Lam is located alongside National Road No 5 in a favorable geographical position, it is convenient for transportation and communication. Van Lam has developed economic activities such as manufacturing electrical machinery and equipment, electronic parts and components; and recycling plastic and lead.

Based on the survey on enterprises in 2003 conducted by Hung Yen Statistical Office, we found that there were 8 enterprises in electrical equipment and machinery sector (code 31**) and electronic parts and components (code 32**) in Hung Yen. Out of that there were 7 enterprises in Van Lam. Moreover, there were 7 enterprises recycling plastic and lead (code 37**) in Hung Yen, 6 of which were located in Van Lam.

Therefore, we have conducted in Van Lam a survey of 7 enterprises manufacturing electric machinery and equipment, electronic parts and components; and 6 enterprises and 6 household enterprises recycling plastic and lead, zinc and metal. The below is analysis based on this survey.

+ 7 enterprises manufacturing electric machinery and equipment, electronic parts and components.

These 7 enterprises (enterprise AA, enterprise BB, enterprise CC, enterprise DD, enterprise EE, enterprise FF, enterprise GG) can be seen as 'technology intensive industry'. Only one enterprise was established in 1997, while other enterprises were newly established after 2000 when Law on Enterprises came into effect.

Some indicators

Enterprise AA, enterprise BB, enterprise CC, enterprise DD, enterprise EE, enterprise FF, enterprise GG have electrical capacitors, loudspeakers, electrical cable, electrical wire, fridge-freezers, televisions, spare parts of television, respectively, as their main products.

As shown in Table 2.2.24, enterprise FF is the leading company in the sector in Van Lam regarding revenue, the number of employees, income per employee and capital. Its indicators are VND 1,295,320 million, 314 employees, VND 1.3 million/employee/month and VND 384,706 million, respectively. However, in terms of ratio of equity to capital (45.21%), it is not a leading company. Except Enterprise DD and Enterprise GG other enterprises have higher ratio of equity to capital, between 60% and

100%.

The technology-intensive enterprises have average revenue, employees and income per employee as the same as that of industrial enterprises in Van Lam. Regarding ratio of equity to capital it is higher than that of industrial enterprises in Van Lam.

Linkage - input (table 2.2.25)

The input source for 'technology-intensive' enterprises is mostly from outside of the Hung Yen province, about 80% of total input. Northern provinces and import are the main suppliers for these enterprises, both of which provide the same share accounting for 42% of the total input.

Linkage - output (Table 2.2.26 and 2.2.27)

+ *By location:* output of 'technology-intensive' enterprises is mostly sold to buyers in the Southern and the Northern provinces, accounting for 32% and 58% on average, respectively.

+ *By type of customers:* clients-consumers of output of 'technology-intensive' enterprises from our survey in Van Lam are diversified. Enterprise BB provides 100% of its output for wholesale, while Enterprise GG provides 100% of its output for foreign invested enterprises. Enterprise FF exports 60% of its total output, while Enterprise AA exports only 10% of its total output (Table 2.2.26).

Important factors to development of 'technology-intensive' enterprises

For 'technology-intensive' enterprises the most important factors to enterprise development are low cost, cheap labor; high consumer's satisfaction; well planned marketing strategy and market expansion.

Problems to development of 'technology-intensive' enterprises

The most obstacles to development of 'technology-intensive' enterprises are competition, land and capital.

Solution of 'technology-intensive' enterprises to problems to their development

They recognize that they need to improve the quality of their products and reduce cost of production further.

Regarding business environment

Their opinions are as follows: in the province there is a lack of skilled labor, however infrastructure is good in terms of water and electricity supply and transportation, and administrative procedure is acceptable and simple.

+ 6 enterprises and 6 household enterprises recycling plastic, lead, zinc and metal.

These 6 enterprises (Limited company Minh Quang, Private company Thanh Lam, Xuan Dat Co. Ltd, Tien Dat Plastic Co. Ltd, Manh Tung Plastic Co. Ltd, Huy Hoang Plastic J S Co) and 6 household enterprises recycling plastic, lead, zinc and metal can be seen as 'traditional industry'. Household enterprises have been established for longer time, while six enterprises were newly established after 2000 when Law on Enterprises came into effect.

Some indicators

There are 8 establishments recycling or producing plastic products, while 4 establishments are recycling or producing metal, zinc and lead.

As shown in Table 2.2.29, these traditional establishments have a small size of revenue, capital, employees, and income per employee. These indicators are VND 2.2 billion, VND 1,098 million, 13 employees, and VND 526,500/employee/month in 2003. However, in terms of ratio of equity to capital it is high and some establishments do not borrow from any other source. Due to the small size of businesses contribution to the budget is small, between VND 1 million and VND 2 million.

The traditional enterprises including household enterprises have average revenue, employees and income per employee less than that of technology-intensive as well as industrial enterprises in Van Lam.

Linkage - input (Table 2.2.31)

The input for 'traditional' enterprises is mostly from northern provinces, about 50% of the total input, then from Hung Yen province, about 22% of the total input. It means that Hung Yen province and Northern provinces are the main suppliers for these enterprises.

Linkage - output (Table 2.2.32 and Table 2.2.33)

+ *By location*: the output of 'traditional' enterprises is mostly sold to buyers in the Southern provinces, the Northern provinces and Hung Yen province, accounting on average for 49%, 25% and 19%, respectively, of the total output.

+ *By type of customers*: buyers of output of 'traditional' enterprises from our survey in Van Lam are private enterprises, SOEs and wholesale units, accounting for 46%, 18% and 15%, respectively, of the total output. In addition, there are 4 households providing 100% of their output for private enterprises (table 2.2.33).

Important factors to development of 'traditional' enterprises (Table 2.2.34)

For 'traditional' enterprises, the most important factors to enterprises development are quality of products, access to market and marketing, cheap labor costs.

Problems to development of 'traditional' enterprises

The most serious obstacles to development of 'traditional' enterprises are competition, capital and land.

Solution of 'traditional' enterprises to problems to their development

They recognize that they need to improve the quality of their products and reduce the cost of production further, and ask the local government for production sites and capital borrowing.

Regarding business environment

Their opinions are as follows: in the province infrastructure is good in terms of water and electricity supply and transportation, and administrative procedure is acceptable and simple.

e) Challenges in process of industrialization and modernization in Van Lam from CIEM's field trip and survey.

The majority of labor in Van Lam is unskilled. The proportion of technically trained labor is low. Almost all enterprises must pay high cost of training that leads to high product price.

The market penetration has encountered severe competitive pressure especially in electronic product market.

The infrastructure of the industrial zones is imperfect: road system inside the IZ is inadequate that fails to meet transportation needs of enterprises, services area (housing, hospital, etc.) has not been incorporated in the master plan for IZ, site clearance progress is slow, and administrative procedures are complicated

The unstable material markets, namely market for automobile assembly, export outsourcing, steel production; the increased oil price in the global market, have pushed up production costs.

The solutions to environmental pollution and waste treatment are limited.

Some products just meet the domestic demand and cannot be exported as seen in the analysis of "traditional enterprises" survey.

Some products just meet the domestic demand, but input for their enterprises are limited

within the province as seen the the case of "technology-intensive" enterprises survey. It means that supporting industries have not yet been developed in Hung Yen.

Non-state enterprises are small, mainly operating in trading and consumer goods sectors.

Table 2.2.24: Some indicators of 'technology-intensive' enterprises in Van Lam

Revenue (million VND)	2000	2001	2002	2003	Jan-Jun 2004
Enterprise AA				23,211	80,000
Enterprise BB				196	550
Enterprise CC				1,456	2,178
Enterprise DD	2,789	40,782	59,055	130,597	64,888
Enterprise EE		102,205	31,220	41,894	22,500
Enterprise FF	320,150	421,865	780,882	1,295,320	650,000
Enterprise GG				304,377	195,000
Employees (person)					
Enterprise AA				347	333
Enterprise BB				15	15
Enterprise CC				52	62
Enterprise DD	40	52	122	202	297
Enterprise EE		68	38	98	98
Enterprise FF	185	225	178	314	330
Enterprise GG				119	155
Wage/employee/month (VND)					
Enterprise AA				900,000	900,000
Enterprise BB				400,000	500,000
Enterprise CC				700,000	750,000
Enterprise DD	900,000	950,000	800,000	856,000	905,000
Enterprise EE		750,000	800,000	850,000	900,000
Enterprise FF	1,050,000	1,200,000	1,200,000	1,300,000	1,500,000
Enterprise GG				800,000	950,000
Capital (million VND)					
Enterprise AA			11,256	40,477	
Enterprise BB				700	
Enterprise CC				25,117	
Enterprise DD	73,638	120,106	130,415	144,217	
Enterprise EE	149,798	164,673	162,700	150,135	
Enterprise FF	239,281	207,601	208,259	384,706	
Enterprise GG				98,539	
Equity/capital (%)					
Enterprise AA			84.46	58.90	
Enterprise BB				100.00	
Enterprise CC				73.66	
Enterprise DD	16.16	18.23	16.79	15.19	
Enterprise EE	74.24	61.97	60.25	67.94	
Enterprise FF	39.50	35.97	37.41	45.21	
Enterprise GG				18.26	
Contribution to the budget (mill. VND)					
Enterprise AA			1	2,719	
Enterprise BB				5	
Enterprise CC				75	
Enterprise DD	-1,496	60	418	1,486	
Enterprise EE	295	296	338	460	
Enterprise FF	29,150	38,387	57,541	83,885	
Enterprise GG				57,956	

Source: CIEM's survey

Table 2.2.25: Input source for 'technology-intensive' enterprises in Van Lam (%)

	Within the province	Southern provinces	Central provinces	Northern provinces	Import	Total
Enterprise AA	10		10	75	5	100
Enterprise BB	50			50		100
Enterprise CC	10	5		80	5	100
Enterprise DD		20		30	50	100
Enterprise EE		30		30	40	100
Enterprise FF	1			9	90	100
Enterprise GG		18		22	60	100
Average	18	18	10	42	42	100

Source: CIEM's survey

Table 2.2.26: Buyers of 'technology-intensive' enterprises by type of customers (%)

	SOEs	End user	Private enter.	Whole-sale	FDI enter.	Export	Total
Enterprise AA	50	30	10			10	100
Enterprise BB				100			100
Enterprise CC	20	70		2			92
Enterprise DD	60	5	5	5	5		80
Enterprise EE		30	45	25			100
Enterprise FF		15	25			60	100
Enterprise GG					100		100

Source: CIEM's survey

Table 2.2.27: Consumer of output of 'technology-intensive' enterprises by location (%)

	Within the province	Southern provinces	Central provinces	Northern provinces	Import	Total
Enterprise AA	10		40	40	10	100
Enterprise BB	10			90		100
Enterprise CC		45	10	45		100
Enterprise DD	10	20	10	60		100
Enterprise EE		45	5	50		100
Enterprise FF	1	17	2	20	60	100
Enterprise GG				100		100
Average	8	32	13	58	35	100

Source: CIEM's survey

Table 2.2.28: Important factors to development of 'technology-intensive' enterprises

	1	2	3	4	5	6	7	8
Enterprise AA	X	X	X					
Enterprise BB		X	X		X			
Enterprise CC			X		X			
Enterprise DD			X			X	X	
Enterprise EE	X	X	X					
Enterprise FF				X	X			X
Enterprise GG	X			X				

Note : 1- employees; 2- consumer's satisfaction; 3- cost; 4- machinery and technology; 5- marketing and market expansion; 6- electronics; 7- trade mark; 8- maintenance

Source: CIEM's survey

Table 2.2.29: Revenue, employees and wages of 'traditional' enterprises in Van Lam

	2000	2001	2002	2003	Jan-Jun 2004
Revenue (million VND)					
Household, Phung Dac Hai		145	145	150	90
Huy Hoang Plastic J S Co.				3421	3600
Limited company Minh Quang				1270	1250
Private company Thanh Lam	3000	3500	4000	812	2500
Household, Trinh Dinh Loan	20	35	40	2400	3600
Xuan Dat Co. Ltd				800	1200
Household, Nguyen Duc Phe	1500	1800	2400	8200	4900
Tien Dat Plastic Co. Ltd				5506	2900
Manh Tung Plastic Co. Ltd	950	980	1020	1386	560
Household, Dinh Van Dieu	210	235	250	350	180
Household, Phung Van Dat				90	120
Household, Nguyen Van Luot	1800	2100	2100	2300	1200
Employees (person)					
Household, Phung Dac Hai	4	4	4	5	5
Huy Hoang Plastic J S Co.				14	16
Limited company Minh Quang				13	14
Private company Thanh Lam	12	12	12	12	12
Household, Trinh Dinh Loan	8	9	9	11	17
Xuan Dat Co. Ltd				18	18
Household, Nguyen Duc Phe	21	21	24	29	32
Tien Dat Plastic Co. Ltd			16	16	18
Manh Tung Plastic Co. Ltd	6	6	7	7	7
Household, Dinh Van Dieu	5	5	5	5	5
Household, Phung Van Dat				4	5
Household, Nguyen Van Luot	15	15	14	13	12
Income/employee/month (VND)					
Household, Phung Dac Hai	280,000	300,000	300,000	300,000	400,000
Huy Hoang Plastic J S Co.				850,000	1,000,000
Limited company Minh Quang			300,000	300,000	350,000
Private company Thanh Lam	450,000	500,000	500,000	550,000	650,000
Household, Trinh Dinh Loan	300,000	300,000	350,000	350,000	600,000
Xuan Dat Co. Ltd				700,000	800,000
Household, Nguyen Duc Phe	600,000	600,000	650,000	750,000	900,000
Tien Dat Plastic Co. Ltd			600,000	700,000	750,000
Manh Tung Plastic Co. Ltd	550,000	550,000	600,000	600,000	900,000
Household, Dinh Van Dieu	400,000	400,000	400,000	450,000	450,000
Household, Phung Van Dat				500,000	500,000
Household, Nguyen Van Luot	600,000	7,000,000	7,000,000	7,000,000	1,000,000

Source: CIEM's survey

Table 2.2.30: Capital, equity/capital and budget contribution of 'traditional' enterprises in Van Lam

	2000	2001	2002	2003
Capital (million VND)				
Household, Phung Dac Hai	13	120	125	130
Huy Hoang Plastic J S Co.			2,000	2,106
Limited company Minh Quang			1,620	2,100
Private company Thanh Lam	1,053	1,404	1,870	2,500
Household, Trinh Dinh Loan	70	100	120	300
Xuan Dat Co. Ltd				950
Household, Nguyen Duc Phe	150	320	400	450
Tien Dat Plastic Co. Ltd			1,746	2,285
Manh Tung Plastic Co. Ltd	400	800	920	1,050
Household, Dinh Van Dieu	30	50	55	60
Household, Phung Van Dat				50
Household, Nguyen Van Luot	810	950	1,000	1,200
Equity/capital (%)				
Household, Phung Dac Hai	30.77	33.33	48.00	57.69
Huy Hoang Plastic J S Co.			100.00	100.00
Limited company Minh Quang			85.80	80.95
Private company Thanh Lam	53.18	56.98	75.03	84.00
Household, Trinh Dinh Loan	100.00	100.00	100.00	100.00
Xuan Dat Co. Ltd				100.00
Household, Nguyen Duc Phe	100.00	100.00	100.00	100.00
Tien Dat Plastic Co. Ltd			52.23	40.53
Manh Tung Plastic Co. Ltd	87.50	93.75	92.39	93.33
Household, Dinh Van Dieu	100.00	80.00	81.82	100.00
Household, Phung Van Dat				100.00
Household, Nguyen Van Luot	100.00	100.00	100.00	100.00
Contribution to the budget (million VND)				
Household, Phung Dac Hai	1	2	2	2
Huy Hoang Plastic J S Co.				352
Limited company Minh Quang				62
Private company Thanh Lam			6	44
Household, Trinh Dinh Loan	0	0	0	0
Xuan Dat Co. Ltd				
Household, Nguyen Duc Phe	3	3	3	3
Tien Dat Plastic Co. Ltd			4	6
Manh Tung Plastic Co. Ltd	4	4	4	4
Household, Dinh Van Dieu				
Household, Phung Van Dat				
Household, Nguyen Van Luot	1	1	1	1

Source: CIEM's survey

Table 2.2.31: Input source for 'traditional' enterprises in Van Lam (%)

	Within the province	Southern provinces	Central provinces	Northern provinces	Import	Total
Household, Phung Dac Hai	100					100
Huy Hoang Plastic J S Co.				100		100
Limited company Minh Quang		50		50		100
Private company Thanh Lam		10	80	10		100
Household, Trinh Dinh Loan		80		20		100
Xuan Dat Co. Ltd	50				50	100
Household, Nguyen Duc Phe		90		10		100
Tien Dat Plastic Co. Ltd				100		100
Manh Tung Plastic Co. Ltd				100		100
Household, Dinh Van Dieu				100		100
Household, Phung Van Dat	80		20			100
Household, Nguyen Van Luot	30			70		100

Source: CIEM's survey

Table 2.2.32: Buyers of 'traditional' enterprises by type of customers (%)

	SOEs	End user	Private enter.	Retail units	Whole-sale	FDI enter.	Export	Total
Household, Phung Dac Hai			100					100
Huy Hoang Plastic J S Co.	10	50	40					100
Limited company Minh Quang	50		50					100
Private company Thanh Lam	80		20					100
Household, Trinh Dinh Loan			100					100
Xuan Dat Co. Ltd		80	20					100
Household, Nguyen Duc Phe			5		95			100
Tien Dat Plastic Co. Ltd	1		9			90		100
Manh Tung Plastic Co. Ltd	70	10	5	15				100
Household, Dinh Van Dieu			100					100
Household, Phung Van Dat			100					100
Household, Nguyen Van Luot		10			90			100

Source: CIEM's survey

Table 2.2.33: Buyers/Consumer of 'traditional' enterprises by location in Van Lam (%)

	Within the province	Southern provinces	Central provinces	Northern provinces	Import	Total
Household, Phung Dac Hai				100		100
Huy Hoang Plastic J S Co.		20		80		100
Limited company Minh Quang		50		50		100
Private company Thanh Lam			80	20		100
Household, Trinh Dinh Loan		90		10		100
Xuan Dat Co. Ltd				100		100
Household, Nguyen Duc Phe		100				100
Tien Dat Plastic Co. Ltd	30	20		50		100
Manh Tung Plastic Co. Ltd		17		83		100
Household, Dinh Van Dieu	100					100
Household, Phung Van Dat	100					100
Household, Nguyen Van Luot				100		100

Source: CIEM's survey

Table 2.2.34: Important factors to development of 'traditional' enterprises in Van Lam

	1	2	3	4	5	6	7
Household, Phung Dac Hai	x	x	x				
Huy Hoang Plastic J S Co.	x			x	x		
Limited company Minh Quang					x	x	x
Private company Thanh Lam	x	x	x				
Household, Trinh Dinh Loan			x			x	x
Xuan Dat Co. Ltd		x			x		x
Household, Nguyen Duc Phe	x			x			
Tien Dat Plastic Co. Ltd	x	x			x		
Manh Tung Plastic Co. Ltd	x	x			x		
Household, Dinh Van Dieu	x	x	x				
Household, Phung Van Dat	x	x	x				
Household, Nguyen Van Luot	x	x					

Note: 1- quality of goods; 2- access to market, marketing; 3- cheap labor cost;

4- management; 5- machinery; 6- input; 7- demand for goods.

Source: CIEM's survey

3. Concluding remarks

3.1 The role of local governments

Under the national slogan of “industrialization and modernization”, Bac Ninh and Hung Yen local authorities at the province's and district's level have formulated and implemented their one-year, five-year plans and socio-economic strategies up to 2020 in accordance with the local situations. Both Bac Ninh and Hung Yen provinces employ various measures such as simplifying administrative procedures related to business activities, constructing industrial zones and clusters, and promulgating special regulations on the preferential treatment for domestic as well as foreign investors and announcing them on their websites. Bac Ninh and Hung Yen local authorities are also the ones who realize the policies to improve business environment that are approved by the central government and the National Assembly, such as the introduction of the Enterprise Law and the amendment of the Land Law.

The local governments in Bac Ninh and Hung Yen recognize that investors consider simple administration services/procedures as the most important factor for their making investment's decision. Therefore, Bac Ninh and Hung Yen have carried out “one-door” mechanism of investment management.

Implementing policies on investment promotion and enterprise's development, the district's governments in Bac Ninh and Hung Yen have actively coordinated with the provincial governments in allocating land for the planning of industrial zones, carrying out appraisal of investment projects in the district, developing infrastructure of industrial zones. Especially, the district's governments have closely coordinated with communes and towns under the planned area to produce timely.

It can be recognized that Bac Ninh and Hung Yen local authorities are aware of their important role in local economic development and they have also played an important role in the process of their local economic development. Economic performance in Bac Ninh as well as in Hung Yen has proved for that and both two provinces have got similar results. During the period of 2000 to 2003, average economic growth rates in Bac Ninh and Hung Yen are relatively high compared to that of other provinces and to that of the whole economy. The economic structure has changed to a positive direction, increasing industrial share in the total province's domestic products. Moreover, the number of newly registered industrial enterprises and of operating industrial enterprises has increased notably since 2000, when the Law on Enterprise was put into effect. Some new so-called “technology-intensive” products have appeared (electric machinery and equipment,

electronic parts and components in Hung Yen) or have developed from traditional products (paper and paper products in Bac Ninh). Some so-called “traditional” products (furniture in Bac Ninh and recycling in Hung Yen) and “labor-intensive” products (garment in Bac Ninh and Hung Yen) have increased sharply.

However, not all local authorities in Bac Ninh and Hung Yen have a same level of awareness in the process of the implementing their role in local enterprise development. Moreover, not all policies and plans in Hung Yen and Bac Ninh have been implemented on time, some may be implemented with delay. Therefore, there are some negative points in the process of local enterprise development.

The relationship between enterprises and local authority is not good enough. The coordination among local governments (commune and town’s governments) in site clearance, and compensation for agricultural land loss is weak, and slow. Many areas have been stuck with outstanding problems that prevent enterprises from coming into operation.

Some investment projects have not utilized high-level technology that produces more competitive products on international market.

The remote and disadvantaged areas in some districts in Hung Yen and Bac Ninh have not attracted investors yet. The three districts in Bac Ninh and two in Hung Yen that we selected for case study are considered as outstanding districts in terms of economic development.

With regard to results of attracting foreign direct investment (FDI) projects, the number of registered and operating FDI enterprises in Hung Yen is much higher than in Bac Ninh, although natural geographical and economic conditions are similar in both provinces. Moreover, Bac Ninh Province’s People’s Committee has provided more incentives for investors such as the industrial promotion fund and the export promotion fund. It can be partly considered that local authorities in Hung Yen are more dynamic than that in Bac Ninh and it can be partly explained due to a different business culture between Bac Ninh and Hung Yen.

In Bac Ninh as well as in Hung Yen changing labor structure does not keep pace with the changing economic structure. The economic structure has changed more quickly. Therefore, there is a gap between demand of high skilled labor and supply of unskilled labor from rural area.

The fast process of industrialization and modernization has brought along the fast transformation of the purpose of land usage from agricultural production to industrial

production. This rapid transformation had caused the underemployment in the rural areas where the farmers do not have sufficient time to find a job for them when their land is transformed.

Although growth in industrial production had created jobs for many people, their income remained low. In the meantime, working conditions were not secure.

Social and environmental problems in the process of industrialization and modernization have also occurred. Hung Yen and Bac Ninh need a far-sighted vision, paying attention to developing industrial zones in combination with industrial urban areas. Now Provincial People's Committees in Bac Ninh and Hung Yen recognize social and environmental problems in the process of industrialization and modernization. The industrialization and modernization process needs land for building factories as well as land for provision of services for workers in those factories. Thus, an increase in demand for land may cause a rise in land price. And consequently, additional cost for land clearance would create many difficulties for the local authority and may push up the cost of developing ICs or IZs

3.2 Local enterprise development through CIEM's survey

Though CIEM's survey on enterprises some findings are following:

- In general, production technology of survey's domestic enterprises was out-of-date and harmed the environment.
- Because the production technology is obsolete and a small number of enterprises use local raw materials, the local potential such as processing of agricultural foodstuff products has not been optimally utilized. Many raw or semi-processed agricultural products are sold to other provinces for processing.
- Supporting industries are underdeveloped. This is partly due to the fact that most of industrial entities in Bac Ninh and Hung Yen specialize in assembling. This had led to the dependence on intermediate input from other provinces. In the case of the survey on 7 garment enterprises in Hung Yen, their input sources are mostly imported from abroad.
- Competitive capacity of industrial production entities is limited. This is partly due to the lack of capital, lack of information and lack of market and partly due to weak management skills of many entrepreneurs.
- The majority of labor is unskilled. The proportion of technically trained labor is low. Almost all enterprises must pay high cost of training that leads to high product price.
- The market penetration has encountered severe competitive pressure especially in

electronic product market.

- Some products just meet the domestic demand and cannot be exported as seen in the case of "traditional enterprises" survey in Hung Yen.
- Most of production entities could be categorized small-scale household production. This form of production organization seems suitable for handicraft production, but not suitable for advanced industrial production./.