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NUMBER 8

VIETNAM’S UNDER-SIZED ENGINE:
A Survey of 95 Larger Private Manufacturers

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INTRODUCTION

Private sector development in Vietnam is regularly discussed as a matter largely of privatizing, or in Vietnam's preferred language, equitizing state enterprises. However, given that equitization of state enterprises is a complex and time-consuming process, some observers have begun to stress the importance of fostering local Vietnamese companies as a parallel, if not alternative, approach to developing Vietnam's private sector. This has prompted questions about the degree to which Vietnam already has a working private sector and about what this private sector needs to thrive. How well equipped are existing private firms to take on a major role in Vietnam’s growth? How should policy reforms be prioritized so as to best assist Vietnamese entrepreneurs?

This research has produced quite mixed findings. On the one hand, growth in the number of private firms has leveled off, and private sector share of GDP has stagnated. But on the other, labor growth in the private sector has been far stronger than in any other enterprise sector—reflecting the private sector’s far greater tendency to base its business on Vietnam’s comparative advantage in labor. At the same time, it has become clear that private sector development is somewhat lopsided, heavily concentrated in the south and in urban areas with manufacturers active in only a very small number of industries.

This survey documents the fact that Vietnam does indeed have a group of successful private entrepreneurs. It also confirms that the poor business environment in which their firms operate has not only constrained but also distorted their development. State enterprise advantages and isolation from global markets have left private investors to crowd into a small space, i.e., most operate in one of only a few, relatively low value-added industries. As such, Vietnam’s private sector, as a whole, is vulnerable to rapidly shrinking margins and volatile global markets. This report describes in detail the challenges facing Vietnam’s largest manufacturers—its undersized engine of growth.
I. SURVEY OBJECTIVES AND METHODOLOGY

A. Objectives

1.01. MPDF’s private sector survey had two main objectives: (i) to document the current status and problems of private manufacturers in Vietnam so they can be supported more effectively by government policies, market institutions, and firm-level assistance programs; and (ii) to gain insight into the strengths and weaknesses of Vietnam’s first wave of successful entrepreneurs, looking particularly at their readiness to take the lead in growth and employment generation in the coming years. Secondary objectives were to identify new viable investment projects for MPDF and to further popularize understanding of MPDF’s mission and services.

B. Methodology

1.02. The Approach. The survey focused exclusively on registered, majority-private and domestic manufacturing companies with 100 or more employees. It was further limited to firms in the three northern provinces of Hanoi, Haiphong, and Thai Binh, the central city of Danang, and the three southern provinces of Ho Chi Minh City, Dong Nai, and Binh Duong. The intention was to interview a total of 100 firms.

1.03. The decision to survey only larger private firms, i.e., those with 100 or more workers, was based on several considerations. First, a review of private sector surveys completed to date in Vietnam showed that little information on larger private firms is available. Second, the merits of looking at the most successful entrepreneurs in Vietnam as opposed to looking simply at a sample of all private firms became clearer with reflection: namely, that this group of entrepreneurs should offer important insights into prerequisites for success in Vietnam’s current economic environment. Researchers also wanted to know more about the extent to which this first wave of successful entrepreneurs is positioned and equipped to constitute the bedrock of a durable Vietnamese private sector. Third, constructing a nearly complete database of the entire population of larger private firms from which a random sample could be drawn was feasible whereas doing the same for the entire private enterprise sector was impossible.

1 The approach, methodology and survey questionnaire was, in large part, taken directly from similar surveys carried out by Leila Webster in the early 1990s with newly emerging private sector manufacturers in Poland, Hungary, Czechoslovakia and Russia as well as in Ghana and Lebanon. Comparisons with Eastern European counterpart firms are introduced here where of interest.

2 The most comprehensive survey of private Vietnamese firms to date known to the authors was undertaken by 1997 by The Stockholm School of Economics in cooperation with the Vietnamese Ministry of Labor. This survey looked specifically at firms with less than 100 employees in northern provinces Hanoi, Hai Phong and Ha Tay, and southern provinces, Ho Chi Minh City and Long An (see Maud Hemlin, Bhargavi Ramaurthy and Per Ronnas, “The Anatomy and Dynamics of Small Scale Private Manufacturing in Vietnam”, Working Paper Series in Economics and Finance No. 236, May 1998). Other relevant surveys include: James Riedel and Chuong Tran, “The Emerging Private Sector and the Industrialization of Vietnam, April 1997; Masahiko Ebashi et al, “Development Policy on SMEs and Supporting Industries in Vietnam”, August 1997; Pham Gia Hai (ed.), “184 Surveyed Small and Medium Sized Enterprises of Vietnam: Evaluation and Analysis Report”, Hanoi: GTZ/VICOOPSME, March 1996. The Vietnam Chamber of Commerce and Industry has done numerous firm surveys that have included substantial numbers of private companies, but has published only limited analysis of specific findings on the private sector.
And fourth, MPDF’s interest lies mainly in the medium and large private firms and employing a similar focus makes this survey immediately useful to MPDF.

1.04. The rationale for limiting the survey to registered companies was that rapid, sustainable economic growth in Vietnam surely must rely heavily on growth of companies, particularly of light manufacturers that hire large numbers of people. As has been well documented in many developing countries, informal sectors are invaluable sources of income generation, particularly for low-income and marginal groups. And some share of companies will start up as informal businesses. At the same time, the limitations of informal sectors as contributors to growth must be recognized, i.e., they generally are inefficient producers of goods due to their small size, and they are rarely sources of significant job creation as few ever grow large enough to hire even one paid employee. Vietnam’s state enterprises continue to dominate in manufacturing, but they cannot, for the most part, be considered potential leaders of economic growth going forward for many, also well-documented, reasons of efficiency.

1.05. The survey focused exclusively on manufacturers for the simple reason that it is generally manufacturers who have invested the most significant amount of capital and therefore have the most at stake going forward. Furthermore, most manufacturing companies in Vietnam are engaged in labor-intensive industries in keeping with Vietnam’s comparative advantage in labor, and these companies are best-positioned to absorb more labor over time. And, there is little doubt but that Vietnam’s growth path must rely heavily on manufacturing exports, particularly those of labor-intensive light manufacturing.

1.06. Limiting the location of the survey to the seven locations listed above was due to two factors. First, an overview of province-level statistics provided by Vietnam’s General Office of Statistics showed that almost three quarters of all larger firms are found in these seven locations so the bias introduced by this geographical focus is not substantial. Second, a national survey of a country the size of Vietnam is scarcely feasible.

1.07. The Population. The first step towards implementation of the survey was creation of a database of majority-private Vietnamese companies with 100 or more employees, as nothing even resembling a comprehensive list yet existed for Vietnam. The database was constituted by merging lists of firms drawn from multiple sources including:

- Local statistics, labor, tax, and planning and investment offices;
- Local post offices;
- CD-ROM databases created by the Ministry of Culture and Information and the Vietnam Chamber of Commerce;
- Vietnam’s Federation of Labor;
- Various published company directories.

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1 It will also soon be important to look at the growth of services in Vietnam.

2 Analysis of General Statistical Office figures shows that these seven provinces housed 73% of all private manufacturers with 100 or more employees at the end of 1998.
1.08. MPDF employed two consulting firms to go to those provinces with the greatest number of private firms and draw up directories of all qualifying firms they could locate. These new lists were then merged with existing directories and purged of duplicates. Staff telephoned each company in the database to ensure accuracy of basic information.  

Figure 1.1: MPDF Database of Larger Manufacturers by Location  
(Number of firms)  

* Larger firms defined as majority private, majority Vietnamese firms with 100 or more employees

1.09. The completed MPDF database of registered private companies with 100 or more workers contains 682 firms, of which 457 firms (67%) are manufacturers. Firms with 300 or more employees number 198, 152 of which are in manufacturing. These figures would, therefore, indicate that MPDF’s target of 100 sample firms represents over 20 percent of Vietnam’s total population of larger private manufacturing firms.  

Figure 1.2: MPDF Database of Larger Manufacturers by Industry  
(Number of firms)  

* Larger private firms defined as majority private, majority Vietnamese firms with 100 or more employees

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5 The error rate of information in the existing databases was found to be quite high, with much of it well out of date.  
6 Comparisons with official government data show that MPDF’s database is largely complete. The General Statistical Office figures show a national total of 622 private companies with 100 or more employees, 465 of which are manufacturers.  
7 General Statistical Office figures show a total of 190 private companies with 300 or more employees.
1.10. **Sample Selection.** The sample was chosen from the above populations of manufacturers in Ho Chi Minh City, Dong Nai, and Binh Duong provinces in the south; Danang city in the center; and Hanoi, Hai Phong and Thai Binh provinces in the north. Larger numbers of firms were selected from northern and central regions than their proportion in the total population as the very large number of firms located in HCMC would otherwise dictate that almost all firms come from there, leaving little scope for comparing firms on a regional basis. The survey sample was further stratified for firm size, with an eye to comparing roughly equal numbers of firms with 100 to 299 employees with firms with 300 or more employees.

1.11. Initially, 144 firms were randomly selected: in the south, 45 firms with 100-299 workers, 45 with 300 or more; in the center, 7 firms with 100 to 299 workers, one with 300 or more; and in the north, 25 firms with 100 to 299 workers and 19 with 300 or more. MPDF sent selected firms a letter from MPDF’s Manager asking them to participate, explaining the Facility’s mission and services, and promising a copy of the final report. The letter contained a stamped, pre-addressed envelope and a response card asking them to verify basic facts about their company and to indicate whether they would participate in the survey. Staff then telephoned all selected firms a week later.

1.12. When it was clear that the original group of 144 firms would not yield MPDF’s goal of 100 sample companies, approximately 100 additional firms were selected randomly from the database and contacted through a combination of faxed letters and telephone calls. By the end, MPDF had contacted nearly 250 firms, or about two thirds of the population in the selected provinces.

1.13. It is important to maintain awareness of those companies that were not included in this sample and on the possible impact of their exclusion on survey findings and conclusions. First, excluding all firms with fewer than 100 workers means that some number of capital intensive, and conceivably quite large in revenues, firms were excluded. All large firms located in provinces other than the ones covered here were also left out. Other potentially large firms that might have been excluded are those with fewer than 100 official employees but many more part time and/or seasonal employees.

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8 These eight firms represented Danang’s entire population of larger private manufacturers.
9 These 19 firms of 300 or more workers represent the entire set of such firms for Hanoi, Hai Phong and Thai Binh.
Second, firms that declined to participate would include those who were more fearful, cynical or confident than the others. Third, limiting the sample to registered companies only excludes all those that have not registered, and some would argue that firms only register when they apply for loans, enter export trade, and document their land rights. To the extent that this is true, some large, unregistered enterprises would have been excluded. And, of course, the many smaller SOEs some of which actually function much like private firms were, by definition, not represented in this sample.

1.14. The final sample of firms comprised 95 firms, five of which fell just short of the minimum of 100 employees. The sample included 59 firms in the south and 33 in the north. A total of only three in the center made it impossible to draw conclusions about the private sector in that region. Stratification by size was more successful, with the final sample including five firms with slightly less than 100 employees, 39 with 100 to 299 employees, and 51 with 300 or more employees. The final sample included 32 garments firms, accurately reflecting their large number among all large manufacturers.

1.15. Implementation. Survey teams interviewed the 95 sample firms between January 14 and February 6, 1999. Interview teams of two persons each combined Vietnamese and foreign interviewers, all eight of whom are proficient in Vietnamese language.

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10 Interviewers actually met with entrepreneurs from 105 firms, 10 of which did not meet survey criteria.

11 Staff reported that bigger firms were generally far less anxious about participating in the survey than smaller firms.
Interviews averaged two to three hours and were followed by a tour of the factory whenever possible. 12

1.16. Data processing. Data processors calculated means, medians and ranges for continuous variables and frequencies for discrete variables using statistical software. Open-ended, qualitative answers were also processed and sorted using word processing software.

1.17. Researchers then carried out a series of “mini-analyses” designed to reveal trends in the data. Specifically, this analysis sought to answer two related questions: first, which groups of managers and firms have had greater access to resources, particularly resources that are rationed by the government, and second, how has firm performance differed across these groups. Nine variables were hypothesized to be predictive of access to resources and firm performance. Seven of these variables were location, industry, size of firm, age of firm, main export channel, manager’s birthplace, and manager’s previous place of employment. Two additional independent variables were constructed using constellations of responses. One was “connected-ness” of the manager wherein managers who met four or more of a set of six characteristics associated with privileged access to state favors were labeled “connected” with the remainder categorized as “the rest”. 13 The second categorized firms as “winners”, “losers”, and “the rest” based on trends in sales and profits. 14 The most interesting results of this analysis are presented as “mini-analyses” in Chapters III and IV, and other smaller details are included elsewhere in the text as appropriate.

12 The majority of interviews were conducted with each firm’s primary owner/manager. In a small number of cases, interviewees were management-level employees with intimate knowledge of the company and the owner—often relatives.

13 To be classified as “connected”, a manager had to meet 4 or more of the following 6 conditions: membership in the Communist Party, employment in the government (excluding the pre-1975 southern regime), military service for two or more years, work or study abroad before 1991, pursuit of government business abroad, and a spouse or parent who worked for the party, state or army.

14 “Winners” are defined as profitable firms that saw profits, sales revenue and sales volume all rise in 1998. Since only 12 firms reported that they were not profitable, the “losers” category had to be a bit less tightly defined. “Losers”, as a result, are those firms that saw sales revenues and sales volume fall in 1998.
II. THE BIG PICTURE

A. The Macro Picture—Renovation Stalled

2.01. Seen as a whole, Vietnam’s economic reform program—officially dubbed the doi moi or “renovation” program—has been a remarkable success. Only a decade ago, the Vietnamese economy was in shambles, devastated by hyperinflation with widespread famine. Today, on the strength of annual GDP growth of eight to nine percent in recent years, Vietnam can claim the most rapid economic development of the decade among the world’s poorest nations. Chief among accomplishments has been a drastic reduction of poverty from three-quarters of the population at the beginning of reforms\textsuperscript{15} to about a third today.\textsuperscript{16}

2.02. Seen at present, however, Vietnam’s economy appears to be running out of gas and might well be coasting towards a standstill. The following indicators would support this view:

- Growth of GDP slowed by more than half in 1998 to roughly 3.8 percent, and indications are that it will fall further in 1999;\textsuperscript{17}

- Exports, which grew by about 25 percent per year for much of the decade, fell by some 12 percent in the first quarter of 1999 despite removal of various export restrictions and a 17 percent currency devaluation in 1998;\textsuperscript{18}

- An even more dramatic 18 percent fall for imports in the opening quarter of 1999 compared with the first quarter 1998 has allowed Vietnam to avoid a foreign exchange crisis, but does not bode well for the future of import-dependent exports;

- Commitments of foreign direct investment have continued their freefall in 1999, worsening a situation that in 1998 saw disbursements drop to about half the 1997 level.\textsuperscript{19} To some extent, Vietnam is now exchanging foreign investment for foreign aid—aid disbursements increased by about 40 percent in 1998;\textsuperscript{20}

- The government has significantly scaled back its 1996-2000 public investment program to take into account lower foreign investment inflows.


\textsuperscript{16} Preliminary data from Vietnam’s second Living Standards Measurement Survey (LSMS) supported by Sweden, the World Bank and UNDP, as cited in “Globalization, Governance and Stability: Key Lessons from East Asia” (Working Draft), A UNDP Staff Paper, March 1999.

\textsuperscript{17} The government’s official GDP growth rate for 1998 is 5.8%, but the World Bank places it two percentage points lower, mostly because of lower estimated growth in services. Note, nonetheless, that most statistics used in this report are from the General Statistical Office, and therefore are based on the 5.8% figure.


\textsuperscript{19} Commitments in 1998 fell to $1.8 million, $1 million of which was disbursed, Vietnam Update, World Bank, March 1999.

\textsuperscript{20} The Economist Intelligence Unit, Vietnam First Quarter 1999.
2.03. The economic downturn’s impact on employment is unclear because of the paucity of quality labor statistics in Vietnam. Earlier analysis had predicted that even a small drop in the country’s 8-9 percent growth rate would lead to mounting unemployment, due mainly to the one million new entrants to the work force every year.\(^{21}\) Unemployment actually rose by a fraction of a percent in 1997, despite GDP growth of over eight percent that year.\(^{22}\) Some estimates show that urban unemployment increased from about six to eight percent in 1998.\(^{23}\) Underemployment remains very high throughout the country, especially among the young.\(^{24}\)

2.04. Most observers attribute Vietnam’s current problems in varying proportions to a slowdown in reform and to collateral damage from the Asian financial crisis. On the first count, the Vietnamese government has been slow to launch a second round of serious reforms following the substantial structural reforms of the late 1980s and early 1990s. Growth resulting from these first-level reforms was significant, based mainly on an immediate domestic supply response to legal reforms allowing private enterprise, lifting of price controls, and devaluation of the local currency. Foreign investors also rushed to enter what they perceived as a large Vietnamese market and to capitalize on the relatively high-skill, low-cost labor force. It can be argued that the Vietnamese economy has now extracted the maximum mileage possible from the first round of reforms and will only be able to growth further with a new round of deep institutional reforms, e.g., privatizing the still-large state enterprise sector, restructuring the banking sector, improving the quality of public services, and increasing information flows of all types.

2.05. The Vietnamese economy faces this imperative for reform more urgently than it might have because of the financial crisis in the region. Limited global integration, particularly as regards its capital markets, buffered Vietnam from the direct hits suffered by other economies in the region. But evidence of powerful indirect effects of the Asian economic downturn has mounted over the course of the past 18 months. Crisis-hit East Asian countries account for approximately 70 percent of both foreign investment and foreign export markets, and these fueled much of Vietnam’s phenomenal growth drive over the past decade.\(^{25}\) The sharp reduction of intra-regional investment and trade has been compounded by a corresponding fall in the competitiveness of Vietnamese exports relative to East Asian neighbors whose currencies have depreciated by large percentages.

2.06. The government has responded to the economic downturn with a mix of initiatives over the past 18 months. It has issued a new series of business-friendly decrees and laws, increased the pace of privatization, abolished export licensing, and steadily devalued its currency by small amounts. Most important is passage in June 1999 of a new Enterprise Law that lays out private businesses’ rights much more clearly than has been done before. This new Law will come into effect January 1, 2000, and many in government expect it to have a strong positive impact on Vietnam’s business environment. At the same time, obstacles remain substantial as the government continues

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\(^{21}\) Dollar and Litvak, p. 12.
\(^{23}\) “Globalization, Governance and Stability: Key Lessons from East Asia”, p. 39.
to reiterate its commitment to state-led growth, import barriers are high, companies face restrictions on use of foreign exchange, the currency remains over-valued, and the banking sector is still largely unreformed with large and growing pools of bad loans. It is noteworthy that the government has yet to endorse fully the key role of the private sector in re-establishing high growth rates.

B. A Brief History of the Vietnamese Private Sector

2.07. The Vietnamese economy and culture have been based on agriculture for thousands of years. Conquest by the French in the 19th century did little to change this. The French introduced the modern concept of legal private ownership, but implemented it as part of a distorted economic system that benefited only a very small Vietnamese elite, mostly in the south. Production that competed with French imports, including traditional handicrafts, was squeezed out. In 1939, industry accounted for just 10 percent of national output. Ninety thousand people worked in industry, 60 percent in mines controlled by the French.

2.08. The Democratic Republic of Vietnam, 1954-1975. Following the division of Vietnam at the Geneva Convention in 1954, the ruling Worker’s Party’s strategy for rapid industrialization rested on a commitment to eradicate capitalist economic forms and to establish a system based solely on state-owned enterprises and collectives. By 1960, after intensive programs of land reform, collectivization, and nationalization of medium and large-scale industry, more than half of industrial output came from state enterprises and nearly a quarter came from collectives. Formal private enterprises contributed less than one percent. Despite this state dominance of output, the informal private sector was by far the country’s leading provider of jobs—even at the height of state sector strength in the mid-1960s, state enterprise employees accounted for less than a fifth of the labor force.

2.09. After a burst of rapid growth in the first ten years following the Geneva agreement, the north’s state-led economy slowed to less than the rate of population growth in its second decade. The introduction of the war into the north by US bombers must be considered a factor in this decline. Hard times gave a preview of the future as local officials began to experiment with incentive schemes aimed at increasing production. On the whole, however, the centrally planned system in the north was able to struggle along thanks in part to massive aid infusions from both the Soviet bloc and China.

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26 See Annex II for a more detailed account of the history of Vietnam’s private sector.
30 *45 Nam Kinh Te Viet Nam*, p. 16.
<table>
<thead>
<tr>
<th></th>
<th>Annual GDP Growth</th>
<th>Annual Population Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-1960</td>
<td>13.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>1961-1965</td>
<td>9.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>1966-1970</td>
<td>0.7%</td>
<td>3%</td>
</tr>
<tr>
<td>1971-1975</td>
<td>2.3%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Source: 45 Nam Kinh te Viet Nam

2.10. *The Republic of Vietnam, 1954-1975.* Dependence on foreign capital was perhaps the one characteristic that the north and south shared during this period. The difference in character between northern and southern economies is best illustrated by the fact that services was the south’s fastest growing sector, representing about 60 percent of the economy just before unification. To the extent that the government did intercede into economic affairs, its concentration was not industry but agriculture.

2.11. At its height in 1964, industry represented just 13 percent of the Republic of Vietnam’s GDP. Not surprising, the chaotic and risky atmosphere of an escalating war had a significant dampening effect on private sector industrialization: on the eve of unification, industry’s share of GDP had been reduced to half its 1964 level. Industry was highly concentrated in the area surrounding Saigon and focused mainly in the food and beverage, cigarettes and textiles industries. Manufacturing firms were overwhelmingly small, with just 320 of 175,000 establishments (0.2%) having 50 or more employees.

2.12. *Political and Economic Unification of the Socialist Republic of Vietnam, 1976-1980.* With official unification of the country in 1976, the northern economic system was applied to the south. Nationalization or collectivization of all substantial-sized private companies in the south ensured that unification resulted in only a slight fall in the state’s share of industrial output. A limited number of smaller companies were not brought under full state control, but instead re-categorized as private-state joint-ventures (cong tu hop doanh) where the state held controlling interest. This latter option was generally only available to companies whose owners were judged to be politically correct.

2.13. Contrary to the predictions of ambitious central planners in the north, the unified Vietnamese economy performed in much the same sluggish fashion as the northern economy had for the preceding decade. Strong southern resistance to collectivization and nationalization, rapidly deteriorating relations with Cambodia and China, and the failure of the West to become involved in post-war recovery all contributed to the worsening of an already bad economic picture. From 1976 to 1980:

32 The United States granted $26 billion to the Republic of Vietnam in the years 1954-1974. Eighteen billion of this was specifically for military purposes (Tran Hoang Kim, p. 196).
34 Tran Hoang Kim, p., 191, 194.
35 90% of all industrial output came from the Saigon-Cholon-Bien Hoa-Gia Dinh area. As for sectors, 80% of industrial output was in food and beverages, cigarettes and textiles.
36 Tran Hoang Kim, p. 191.
Agricultural output grew at less than two percent a year, far below the official target of eight to 10 percent;

Industry grew at 0.6 percent a year, compared to a target of 16-18%;

Population growth continued strongly at more than two percent a year, despite a massive exodus of “boat people”;

“Fence breaking” activities—open-market trading aimed at raising sufficient funds for production costs and bonuses for workers so as to get closer to unrealistic production targets set by central authorities—became commonplace;37

2.14. *Doi Moi, 1986-present.* After a half a decade of stopgap measures, bad was turning worse for Vietnam in 1986. In addition to hyperinflation and widespread famine, Vietnam’s leadership faced an increasingly disgruntled ideological benefactor in the Soviet Union. Nguyen Van Linh was named Party Secretary and *doi moi* was officially launched.

2.15. Initially *doi moi* was very similar in content to the USSR’s *perestroika* — decentralizing decision-making about inputs to the enterprise level while continuing price controls and state subsidies. The result, like in the Soviet Union, was a renewal of hyperinflation, and 1989 saw the largest exodus of “boat people” since a decade earlier.38 Once again, crisis weakened the position of conservatives and allowed for renewed reform-- still under the banner of *doi moi*-- that established the fundamentals for subsequent rapid growth: price liberalization, increasing interest rates to positive real rates, and devaluing and unifying the exchange rate.

2.16. In 1988, the state issued decrees "recognizing the long-term importance of private industry, guaranteeing its existence as part of a 'multi-component economy' and lifting all limitations on its hiring of labor".39 Two years later, in 1990, the Company Law laid down the legal infrastructure for the formal private sector. Finally, in 1992, a new Constitution reaffirmed the legality of private enterprise and the private sector's standing in the “multi-sectoral” economy.

C. The Vietnamese Private Manufacturing Sector

2.17. There is often confusion about the actual size of Vietnam’s private sector, much of it caused by the facts that almost all agriculture in Vietnam is in private hands and there is a large and growing informal sector. This report focuses on the smallest part of the private sector: registered manufacturing companies. This focus is based on the belief that Vietnam’s economic future depends heavily on the fate of this segment of the private sector. Labor productivity increases in agriculture will be small, and real gains in labor productivity will only come in industry. And within industry, it is light manufacturing that will be the most productive as this is where Vietnam’s abundant resource, labor, will be most fully utilized. This section begins with the most aggregate level with shares of GDP and employment by sector, and then moves to outline Vietnam’s enterprise structure and the characteristics of its small private manufacturing sector.

2.18. Agriculture and related activities continues to absorb two thirds of Vietnam’s labor force. Industry and construction account for only 10 percent of employment. This order reverses when contribution to GDP is considered. Here, industry and construction contribute a third of GDP, and agriculture only a quarter.

2.19. The state sector accounts for 40 percent of GDP, and the remaining 60 percent is the private sector, often referred to in Vietnam as the non-state sector. The state sector accounts for 10 percent of employment, the private sector for 90 percent. Agriculture and household enterprise (including the informal sector) dominate the private sector with 89 percent of total employment (about 66% in farming and 34% in household enterprise).

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40 Unless otherwise noted, statistics used in this report are all based on statistics supplied by the General Statistics Office—the official source of statistics in Vietnam (see Annex 1). MPDF cannot guarantee the accuracy of every number, but the authors believe trends captured by these figures are representative of reality. Readers will find that data from other sources differ. For example, the Vietnam Chamber of Commerce and Industry uses numbers from the Ministry of Planning and Investment that say that there are roughly 35,000 private companies in Vietnam. According to the General Statistics Office, MPI figures are based on registrations and do not account for the high number of private firms that go out of business whereas GOS figures are based on the numbers of companies currently in operation.
and 34 percent of GDP. The “corporate” private sector, i.e., registered companies, accounts for only 1 percent of employment and for 7 percent of GDP.

2.20. The Vietnam’s corporate private sector consists of three legal forms created by the Company Law of 1990: “private” companies (doanh nghiep tu nhan), limited liability companies, and joint-stock companies. The GSO counts a total of 26,021 private companies nationwide of which 18,750 are “private” companies, 7,100 are limited liability companies, and 171 are joint stock companies.41

2.21. The number of private companies is now growing very slowly. Growth rates have fallen from an annual high of near 60 percent in 1994 the second year following liberalization to only 4.1 percent in 1998. Most surprising is a decrease of 250 limited liability companies in 1998. The number of “private” companies, typically the smallest of the company types, rose by 1,250 and the number of joint stock companies by 19—too small a number to account for those companies that were equitized in 1998 leading researchers to wonder how the GSO is categorizing newly equitized companies.

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41 Readers may note that this figure for private registered companies contrasts with other published figures for the private sector. The authors believe that this discrepancy derives from earlier confusion about the General Statistical Office’s method of classifying enterprises. The GSO’s “private sector” (kinh te tu nhan) category is limited to only those enterprises registered under the specific legal form of “private enterprise” (doanh nghiep tu nhan)—the legal form for companies with one single owner. The GSO places limited liability companies and joint-stock companies in a category called “mixed ownership” (kinh te hon hop). The kinh te hon hop category is defined as a category for joint-ventures between the state and the private sector. It appears that, because the state has share in some limited liability and joint-stock companies, the GSO has taken to putting all companies of either type into the kinh te hon hop category. MPDF believes the state share in limited liability and joint-stock companies to be very low and therefore has collapsed the kinh te hon hop category into the kinh te tu nhan category to reflect accurately the number of registered private companies.
Table 2.2: Number of Private Companies by Legal Status, 1993-1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Companies</td>
<td>6,808</td>
<td>10,881</td>
<td>15,276</td>
<td>18,894</td>
<td>25,002</td>
<td>26,021</td>
</tr>
<tr>
<td>Year-on-year growth</td>
<td>--</td>
<td>60%</td>
<td>41%</td>
<td>24%</td>
<td>32%</td>
<td>4%</td>
</tr>
<tr>
<td>“Private” Companies</td>
<td>5,182</td>
<td>7,794</td>
<td>10,916</td>
<td>12,464</td>
<td>17,500</td>
<td>18,750</td>
</tr>
<tr>
<td>Year-on-year growth</td>
<td>--</td>
<td>50%</td>
<td>40%</td>
<td>14%</td>
<td>40%</td>
<td>7%</td>
</tr>
<tr>
<td>Limited Liability Companies</td>
<td>1,607</td>
<td>2,968</td>
<td>4,242</td>
<td>6,303</td>
<td>7,350</td>
<td>7,100</td>
</tr>
<tr>
<td>Year-on-year growth</td>
<td>--</td>
<td>85%</td>
<td>43%</td>
<td>49%</td>
<td>17%</td>
<td>-3%</td>
</tr>
<tr>
<td>Joint-Stock Companies</td>
<td>19</td>
<td>119</td>
<td>118</td>
<td>127</td>
<td>152</td>
<td>171</td>
</tr>
<tr>
<td>Year-on-year growth</td>
<td>--</td>
<td>526%</td>
<td>-1%</td>
<td>8%</td>
<td>20%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (1999); * When making comparisons with 1995, readers must understand that figures for 1995 are different from figures from other years. In 1995, the General Office of Statistics included firms from finance/credit, real estate, technology services, and sports and culture that it did not include in any other years.

2.22. As regards location, the south is home to about three-quarters of all private companies. Ho Chi Minh City alone accounts for a quarter of total companies and nearly one third of all people employed in private companies.

2.23. As seen below, private companies are small in size with an average of only 19 employees. Northern firms are roughly 40 percent larger on average than their southern counterparts. With an average of 47 employees, manufacturers are much larger than the norm.

Table 2.3: Firm Size and Number by Location, 1997 and 1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The North</td>
<td>4187</td>
<td>4428</td>
<td>6%</td>
<td>22</td>
<td>25</td>
<td>14%</td>
</tr>
<tr>
<td>The Center</td>
<td>2087</td>
<td>2292</td>
<td>10%</td>
<td>18</td>
<td>21</td>
<td>21%</td>
</tr>
<tr>
<td>The South</td>
<td>18728</td>
<td>19301</td>
<td>3%</td>
<td>16</td>
<td>18</td>
<td>12%</td>
</tr>
<tr>
<td>National Total</td>
<td>25002</td>
<td>26021</td>
<td>4%</td>
<td>17</td>
<td>19</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: GSO (1999)
2.24. The private sector has demonstrated a strong ability to create employment. Taken as a whole, the number of people working in the private sector grew by 16.2 percent in 1998 compared with only 0.3 percent in the state sector. Employment in private manufacturing companies grew by a strong 20.8 percent in 1998—much higher than employment growth in other sectors.

2.25. Concerning the sectoral distribution, trading accounted for almost half of all private companies with roughly 12,753 companies, followed by manufacturers with about 5,620 companies nationwide. Private manufacturers grew in number by almost 10 percent in 1998, more than twice the rate of the private sector taken as a whole. Among manufacturers, 55 percent are engaged in food and beverage production. Private companies have actually taken the lead in a number of manufacturing industries, among them furniture, metal products, wood and wood products, and medical and precision instruments. Large private firms also play important roles in garments, leather and leather products (mostly shoes), and non-metallic products (mostly ceramics and glass).

### Table 2.4: Private Manufacturers by Size Across Selected Industries

<table>
<thead>
<tr>
<th>Total Firms</th>
<th>Less than 100 workers</th>
<th>100 to 299 workers</th>
<th>300 to 499 workers</th>
<th>500 or more workers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>3026</td>
<td>48</td>
<td>10</td>
<td>21</td>
<td>3105</td>
</tr>
<tr>
<td>Garments</td>
<td>88</td>
<td>85</td>
<td>24</td>
<td>23</td>
<td>220</td>
</tr>
<tr>
<td>Leather</td>
<td>14</td>
<td>13</td>
<td>7</td>
<td>31</td>
<td>65</td>
</tr>
<tr>
<td>Wood</td>
<td>371</td>
<td>25</td>
<td>5</td>
<td>6</td>
<td>407</td>
</tr>
<tr>
<td>Non-metallic</td>
<td>627</td>
<td>26</td>
<td>3</td>
<td>1</td>
<td>657</td>
</tr>
<tr>
<td>Others</td>
<td>1029</td>
<td>102</td>
<td>23</td>
<td>12</td>
<td>1166</td>
</tr>
</tbody>
</table>

**Source:** General Statistical Office (1999)

2.26. **Summing up**, there is little doubt but that the Vietnamese private sector remains small and vulnerable. It is small in terms of the numbers of operating companies, their average size, and their share of total employment and of GDP. It is vulnerable because firms are highly concentrated in only a few industries, located mainly in a few locations, heavily dependent on the discretion of local and central officials, and frontally exposed to the economic downturn around them. As discussed above, growth rates are slowing in terms of share of GDP and numbers of firms.

2.27. Hidden among these rather gloomy figures is the good news. Employment by private firms grew by 16 percent during 1998, 21 percent on average per firm among manufacturers. With growing unemployment in Vietnam, this is no small piece of good news.

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42 Figures on the growth of private manufacturers are confusing as their numbers reportedly fell by 11% in 1997 only to increase again by 10% in 1999. See Annex Table 11.

III. THE MANAGERS

A. General Characteristics

3.01. Managers were 45 years old on average. The youngest was a 27-year-old in Danang and the oldest a 68-year-old in Ho Chi Minh City. Three-quarters were men and one-quarter women. Eighty-seven percent were ethnic Vietnamese (or Kinh); eleven percent were ethnic Chinese; and the remaining two percent were mixed Vietnamese and Chinese. Four managers were ethnic Vietnamese with foreign nationalities (Viet kieu). Forty-five percent of sample managers were born in the north, 10 percent in the center, and 45 percent in the south. Forty percent of managers were born in the countryside.

3.02. Educational backgrounds were mixed, but generally impressive given that Vietnam was either at war or in tumultuous post-war adjustment when most of these managers were in their late teens/early twenties. Forty-eight percent of managers had university bachelor’s degrees, another four percent had graduate degrees. Twenty-three managers had studied abroad (some for a month, some for a year): 13 in other communist countries, nine in the West, and one in Japan.

3.03. Managers’ professional backgrounds reflected the kinds of employment opportunities available over the past several decades in communist Vietnam. Just under half (47%) cited a state enterprise as their primary former employer, a third as directors or deputy directors and another 22 percent as heads of departments. Four managers still held positions with state enterprises. A quarter of sample managers had served in the government (a third for central government and two thirds for local government). An additional four managers still held government positions at the time of interviews.

3.04. Nearly 60 percent of managers had previous work experience with their company’s main product prior to start up: 38 percent worked previously in an enterprise producing the same or a closely related product and another 20 percent said production of the product was a family tradition. Forty percent reported no previous experience with production or trade of their company’s main product.

3.05. Twenty managers (21%) were current members of the Vietnamese Communist Party and two more were former members. This is significant in a context where the authors are aware of at least one Party resolution banning Party members from holding any ownership stake at all in a formal private company. Party members in the sample did not seem particularly concerned, but several other sample managers said they had opted against joining the Party specifically because of the ambiguities involved. Forty-five percent of sample managers had close relatives in the Party.

44 Sample managers in the party were generally long-time members, with 83% having been in the party for 10 or more years.
45 The Ho Chi Minh City Communist Party announced in 1997 that neither Party members nor their spouses or dependents may own shares in private companies. This was the local party unit’s interpretation of Resolution 10/NQ-TU passed down by the Party leadership. It is unclear how other localities have dealt with this same resolution. See Saigon Times article “HCMC Party Unit Regulates Party Members, Their Families Banned to do Private Business” found on Lexus/Nexus, load-date: August 8, 1997.
B. Motivations and Personal Qualities

3.06. When asked about their motivations for entering private business, 38 percent of managers answered that money was their primary goal, followed by 26 percent who said that achievement—a desire to put their skills to work—was most important to them. Independence was third with 17 percent. Interviewers noted that a common first response was the entrepreneur’s desire to create work for others, an apparently reflexive answer that was in each case discarded after further questioning. Boredom/frustration with work in state enterprises was cited as the main reason for private sector entry by less than 20 percent of managers.

3.07. As for the stimulus that prompted managers to take the plunge into the private sector, perception of a profitable opportunity was cited by 34 percent of respondents followed by the shift in Vietnam’s legal framework for private enterprise, cited by 19 percent of managers. Push factors such as losing or expecting to lose a state sector job were cited as the main reason for private sector entry by less than a quarter of sample managers.

3.08. In contrast, counterpart Eastern European private manufacturers started up private businesses in the first years of reform for quite different reasons. They were far more likely to cite frustration with their state sector jobs as the main factor precipitating their entry into the private sector. What explains the difference between the two groups? First, the initial wave of Eastern European private sector manufacturers were, on the whole, highly educated professionals who had been forced for years to work well below their capabilities in SOEs and who sought to work to their capacities in their new companies; and second, conditions in Eastern European SOEs were very poor in the early 1990s with shortages of inputs, snarled markets for outputs, and delays in salary payments. In short, the incentives to move from state to private sector were quite high in the early reform years in Eastern Europe due to deteriorating working conditions in the state sector. In contrast, conditions in Vietnamese state enterprises generally do not

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46 See the series of World Bank Working Papers on the emergence of private sector manufacturers by Leila Webster.
prompt employees to strike out on their own, i.e., the balance of risk and rewards seems to have not yet tipped in favor of employment in the private rather than state sector, and it remains more rewarding to be a manager in a state rather than private firm for most managers.

Case Example 3.1: Moonlight Management

Born in central Vietnam, Manager A was a high-ranking civil servant in the former Saigon regime, a background that landed him in re-education camps after reunification. By the 1980s, however, Manager A was once again an employee of the state, this time working as a manager for a local government enterprise in Ho Chi Minh City. In 1988, Manager A’s wife established a mini-cooperative to produce garments for export to the Soviet Union and Eastern Europe. This business quickly became the family’s chief source of income, and it commanded an increasing amount of Manager A’s attention.

After the Company Law was passed in 1990, they registered the mini-cooperative as a limited liability company and Manager A’s wife became the director. Manager A took the title of Chairman and continued on in his state sector job; in his words, managing the company while “standing behind the curtain”. Several years after registering the company, Manager A decided that the opportunity costs of continuing his state job had become too large, and he retired to become a full-time private sector manager.

3.09. Looking to personality traits, a rough portrait of Vietnamese managers would paint a picture of a highly confident group of people with practical skills and a commitment to hard work. As with entrepreneurs generally, a relatively high number of Vietnamese managers described themselves as coming from difficult family backgrounds—substantially higher than their Eastern European counterparts. But unlike most entrepreneurs worldwide, Vietnamese managers were unlikely to describe themselves as risk-takers or as people who like to be in control—two qualities that consistently appear at the top of entrepreneurial qualities in large-scale studies.

C. Northern and Southern Managers

3.10. The south is home to the vast majority of Vietnamese private firms. It was also home to the most diverse set of managers in the sample: of 59 southern managers, eleven were born in the north; eight in the center; nine were ethnic Chinese; two were Vietnamese-Chinese; and three were ethnic Vietnamese foreign nationals (Viet kieu). Northern managers were a far less diverse group: all but one of 33 managers were northern-born, and all were ethnic Vietnamese including one Viet kieu.
Case Example 3.2: Born to Manage

“I’ve been a xep (boss) since I was a 15 year-old girl,” says Manager B, despite being born and raised in Hanoi. Beginning at a early age, Manager B was buying and selling fabric, contributing to her mother’s household business. By the early 1980s, she was managing a cooperative that exported garments to the Soviet Union and Eastern Europe. Manager B never studied beyond high school.

A year and a half after the Company Law was passed, Manager B dissolved the cooperative and re-established her business as a limited liability company. Today her company exports 80% of its garment production to Western Europe and employs 250 people. Following her mother’s footsteps, Manager B’s company is a family business, with her husband working as the deputy director and two children filling other management positions. Manager B looks forward to building a successful company and then passing it on to her children.

Manager B worked for a state enterprise before starting up her own company, but quit after just a week, citing frustration with day-to-day bureaucracy and poor work incentives. Manager B opted for the private sector over the state sector, but she also took up an elected position in the local government that gives her access to policy makers, including ranking state and party officials. In this context, she adopts the role of private sector advocate, arguing that her business is ideal for Vietnam as it provides employment to many low-skilled workers.

3.11. What most distinguished northern and southern managers was the kinds of assets each group brought to their private businesses. A summary characterization would say that northerners generally brought far stronger ties to the state and southerners generally brought far more business experience.

3.12. More specifically, 36 percent of the northern managers were Communist Party members compared to only 14 percent of southern managers. Furthermore, 70 percent of northern managers had a close relative in the Party, whereas this was the case for only a quarter of southern managers. Seventy percent of northern managers held university degrees compared to only 45 percent in the south, and northerners were also 50 percent more likely to have studied abroad—figures that confirm common knowledge that, in the post-reunification era, formal education and travel opportunities have been far more abundant in the north. Many of the southern educated elite left Vietnam following the war, and those who stayed and who were connected with the former government were often blocked from entrance into universities (as were their close relatives) until the political reform that was a part of doi moi in the second half of the 1980s.

3.13. The above numbers provide quantitative evidence for a general feeling expressed by interviewers that while political connections are important to businesses everywhere in Vietnam, they are most important in the north. This is not surprising upon reflection. The heart of the Party and the national capital are in Hanoi, and the share of people with political connections is naturally higher near this political center. And three decades of comprehensive physical and ideological state control of the northern economy that preceded doi moi have left average citizens wary of unconventional paths, including
careers in the corporate private sector. One northern manager whose family lost most of its assets to land reform in the 1950s explained that he still operates under the assumption that the state could, at any time, again take everything he has. Even northern managers with impressive political connections often stumbled in their explanations that the government is supportive of private enterprise while simultaneously committed to state-led growth.

3.14. What southerners lacked in formal education, they often made up for with professional experience. Whereas 54 percent of southern managers produced the exact same product in their new businesses as was produced in their previous place of employment, an astonishing 53 percent of northern managers manufactured products with which they had had no previous experience. For example, one northern manager set up a wood furniture business after a long career as a singer in the army; another manager opened a shoe factory after 20 years of teaching history. In addition to formal experience, family traditions in production of ceramics, wood products and garments were particularly common in the south.

D. Previous Employment

3.15. Of 95 sample managers, 25 worked previously as directors, deputy directors or department directors in State-owned enterprises (SOEs)—18 came from southern-based SOEs and 7 from northern-based SOEs (although fully half of southern-based SOE managers were born in either the center or the north of Vietnam). What assets have these former SOE managers brought to their private businesses as a result of their previous positions? At a minimum, it seems safe to assume that these managers were able to come to private business with rather well formed business networks as a result of their former positions. But there is little evidence that most have been able to bring with them assets of other kinds, such as privileged access to land, buildings, and bank loans.

3.16. In fact, the evidence suggests that these managers might have capitalized on their experience with state business in their private businesses as one would hope they would. The fact that 18 of 25 former SOEs managers came from southern SOEs suggests several interesting possibilities: first, there is little movement among SOE managers in the north to private business and the transfer of skilled personnel from state to private sectors that must accompany a transformation from state- to private-led growth is simply more advanced in the south than in the north; and second, the more pro-business southern environment might make the option of shifting from state to private enterprise more attractive and more acceptable in the south than in the north. And perhaps most positive, contrary to the experience in many transitional economies where SOEs managers have engaged in significant “asset stripping” as they moved from state to private business, this survey revealed no evidence of this phenomenon thus far in Vietnam.
Mini-Analysis 3.3: Connected Managers

It is a widely held belief that political connections are a crucial advantage for doing business in Vietnam. To clarify the benefits of political connections in running a private company in Vietnam, the authors created a category of managers who met a series of conditions that indicate significant ties with the state, and then labeled this category “connected”.* When screened for these characteristics, 28 of 95 managers (29%) fell into this “connected” group. Authors then compared “connected” managers with the rest of the sample to see how they differed in general characteristics, in their access to resources relevant to private business, and in the performance of their firms.

General Characteristics. “Connected” managers are overwhelmingly located and born in the north: 17 of 28 (60%) “connected” managers were located in the north and 21 of 28 (75%) were born in the north compared with 16 of 67 (24%) and 12 of 67 (18%), respectively, for the rest of the sample. Not surprising, “connected” managers account for 32 percent of sample firms established during the past 5 years, but only 20 percent of firms that are more than 10 years old. Their ages did not differ. Half of “connected” managers (15 of 28) opted to open garments export businesses. In fact, they were twice as likely as the rest of the sample to enter garments despite significantly less experience—53 percent had never worked in the garment industry before, compared to just 18 percent of the rest of garment manufacturers.

Access to Resources. As expected by authors, “connected” managers were somewhat advantaged in their access to resources. This is seen below in the relatively larger numbers of “connected” managers who obtained university degrees, studied abroad, received loans from banks, and joined the Party. Perhaps most significant is that “connected” managers were three times more likely to have received an investment loan of three years or more from a bank.

<table>
<thead>
<tr>
<th></th>
<th>Connected (28)</th>
<th>The Rest (67)</th>
<th>Total Sample (95)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received university degree</td>
<td>86%</td>
<td>40%</td>
<td>54%</td>
</tr>
<tr>
<td>Studied abroad</td>
<td>48%</td>
<td>14%</td>
<td>24%</td>
</tr>
<tr>
<td>Have received a bank loan</td>
<td>76%</td>
<td>64%</td>
<td>67%</td>
</tr>
<tr>
<td>Received bank loan of 3 years or more</td>
<td>32%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td>Have land title (“red book”)</td>
<td>22%</td>
<td>29%</td>
<td>27%</td>
</tr>
<tr>
<td>Party member</td>
<td>38%</td>
<td>14%</td>
<td>21%</td>
</tr>
<tr>
<td>Close relatives in the Party</td>
<td>78%</td>
<td>30%</td>
<td>45%</td>
</tr>
</tbody>
</table>

*To be classified as “connected”, a manager had to meet 4 or more of the following 6 conditions: membership in the Communist Party, employment in the government (excluding the pre-1975 southern regime), military service for two or more years, work or study abroad before 1991, pursuit of government business abroad, and a spouse or parent who worked for the party, state or army. Researchers experimented with different “cut-off points” to ensure that measures were fairly applied, i.e., going down to only three or up to five conditions does not significantly change the results.

(continued on next page)
Performance. However, on average, access to more resources did not result in high-performing firms among “connected” managers. Their firms started bigger, but grew more slowly, and were far smaller at the time of this survey.

<table>
<thead>
<tr>
<th></th>
<th>Connected (28)</th>
<th>The Rest (67)</th>
<th>Total Sample (95)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median labor growth since registration</td>
<td>14%</td>
<td>25%</td>
<td>23%</td>
</tr>
<tr>
<td>Median workers at registration</td>
<td>90</td>
<td>60</td>
<td>69</td>
</tr>
<tr>
<td>Median workers at present *</td>
<td>280</td>
<td>345</td>
<td>330</td>
</tr>
<tr>
<td>Median revenues in 1998 (billion VND)</td>
<td>7</td>
<td>10.5</td>
<td>10</td>
</tr>
<tr>
<td>Top quarter of sample re: 1998 revenues **</td>
<td>14%</td>
<td>27%</td>
<td>25%</td>
</tr>
</tbody>
</table>

*Workers at present includes part-time and seasonal workers, whereas workers at registration does not.
**These figures refer to percentage of firms.

Possible explanations: Why have firms of “connected” managers performed somewhat less well relative to other sample firms, despite their greater access to resources that should translate into better-performing companies? Possible explanations include:

- Their greater concentration in the north (17 of 28 “connected” managers), where both past and present environments have been less conducive to private enterprise than the more pro-business south;
- Their relative lack of experience: 14 of 28 “connected” managers had no previous experience at all with their primary products compared with 20 of the remaining 67 managers;
- It could be that connections are most important in garnering needed resources to establish a firm and are actually of little use in growing the firm.
- Their large numbers in the struggling garments industry: 15 of 28 “connected” managers established garments firms compared with 17 of 67 remaining managers.
- The possibility that their preferential access to university training and study abroad is, in fact, not a resource that translates readily into better business practices.

Possible Implications. The main implication of the above numbers is that, to some extent, resources have not been allocated to those people best able to apply them well to private business. This would seem an inevitable consequence of resource allocation that is based less on ability to use resources well than on connections. On the other hand, “connected-ness” is obviously a question of gradation—nearly all sample managers likely have connections of some kind; the group identified here simply are more “connected” than the others. And the number of “connected” people in this sample is higher than in the population of private firms as a whole as a disproportionate number of northerners were included in the sample. And finally, the most important finding of this analysis might be the fact that those with higher education are under-performing those without degrees. This should serve as a alert to make sure that educational institutions in Vietnam are now equipping students with appropriate skills for the country’s transitional market.
Mini-Analysis 3.4: Place of Birth

Authors hypothesized that managers and their firms would differ not only according to where firms are located but also according to the manager’s place of birth. Authors were also interested in seeing if northern-born managers whose firms were located in the south would differ from southern firms that belong to native southern managers. To test this hypothesis, authors first compared access to resources of northerners operating in the north (34%), northerners operating in the south (12%), and southerners operating in the south (42%) and then looked at the performance of firms for each group.

Resources. Northern-born managers represent a somewhat disproportionate share of total managers: 45 percent of all managers are northern born but northern firms accounted for only 35 percent of all firms. Northern-born managers enjoyed preferential access to education whether operating in the north or the south, and they were about four times more likely than their southern counterparts to be from politically connected backgrounds (see Mini-analysis #1) with significant levels of Party membership. And they were three times more likely to access long-term loans; in fact, all 11 firms that had received bank loans with maturities of four or more years were managed by northern-born managers. Northern-born managers operating in the south enjoyed the one key resource advantage held by southerners: greater access to “red books”.

<table>
<thead>
<tr>
<th></th>
<th>Born and Located in the North (32)</th>
<th>Born in North, Located in South (11)</th>
<th>Born in South (40)</th>
<th>Total Sample (95)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received university degree</td>
<td>69%</td>
<td>73%</td>
<td>37%</td>
<td>55%</td>
</tr>
<tr>
<td>Studied abroad</td>
<td>31%</td>
<td>46%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Have received a formal loan</td>
<td>78%</td>
<td>55%</td>
<td>60%</td>
<td>67%</td>
</tr>
<tr>
<td>Received more than 5 short-term loans</td>
<td>48%</td>
<td>10%</td>
<td>45%</td>
<td>43%</td>
</tr>
<tr>
<td>Received loan of 3 years or more</td>
<td>31%</td>
<td>18%</td>
<td>10%</td>
<td>18%</td>
</tr>
<tr>
<td>Have “red book”</td>
<td>31%</td>
<td>50%</td>
<td>53%</td>
<td>44%</td>
</tr>
<tr>
<td>Party member</td>
<td>39%</td>
<td>27%</td>
<td>8%</td>
<td>23%</td>
</tr>
<tr>
<td>Close relatives in the Party</td>
<td>77%</td>
<td>64%</td>
<td>15%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Performance. Firms belonging to Southern-born managers were easily the most successful, while firms belonging to northern-born managers operating in the south clearly were the least successful. Northern managers’ firms in the north started smaller than elsewhere but have grown faster in terms of labor but more slowly in terms of revenues. Northern managers in the south started bigger than other managers, then grew at a much slower rate and found themselves by far the smallest at the time of interviews. Southern managed firms have strong performance in all categories.

(continued on next page)
Possible Explanations. Why have northerners with strong political backgrounds and strong academic credentials found it difficult to succeed in the relatively business friendly south? It is not their lack of experience, as northerners operating in the south are nearly three times more likely to have some previous experience with their firm’s main product than northerners in the north. Instead, one major reason appears to be their decision to work in the garments industry where profits are lower. Many people seemed to have gone into garments almost blindly, following others without much planning. About half (46%) of northerners in the south established garments firms. In marked contrast, southerners were least likely to go into garments (23%).
IV. THE FIRMS

A. General Characteristics

4.01. Location. Researchers interviewed 95 firms in total: five in the northern province of Thai Binh, six and 22 in northern cities of Hai Phong and Hanoi respectively, three in the central city of Danang, 13 each in the two southern provinces of Binh Duong and Dong Nai, and 33 in the southern city of Ho Chi Minh City. The final sample contained 33 firms in the north, 59 in the south and only three in the central region.

4.02. Legal Form and Ownership. Accounting for 78 of 95 sample firms (82%), limited liability companies were the legal form of choice among larger Vietnamese private companies. Eleven firms (12%) came under the unique Vietnamese category of "private" company (doanh nghiệp tư nhân), the legal form given private companies with a single owner. The remaining four firms were joint-stock companies.

4.03. Sixty-three firms (66%) were owned fully by the manager of the company, often along with his/her family. In remaining cases, shareholders were almost always private investors, usually friends and colleagues of the manager. Of 95 firms interviewed, only three had state enterprises as shareholders and none claimed government institutions or associations as shareholders. Four companies had ethnically Vietnamese foreign (Viet kieu) shareholders.

4.04. When Were They Started? The median age of sample firms was a surprising eight years. Also surprising to researchers, the distribution of firms' ages was quite broad, and not dissimilar to that found in far more open and established market economies. Twenty-nine firms (31%) pre-dated the market reforms that began in earnest in 1988, while only 19 firms (20%) had been established within the past five years. The most active years of firm formation were 1992 and 1993 (23% of sample firms), the early boom years that followed full liberalization of private firm entry.

4.05. Nearly a third of sample firms were established in the very difficult period following Vietnam's military entry into Cambodia in 1979 and before basic legal recognition of the private sector in 1988. Enterprise formation was possible during this period because, given little choice, the government had adopted a grudgingly permissive attitude toward operating outside of the system, referred to now as "fence breaking". Enterprises formed by individuals during this time operated informally as small-scale

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47 This legal form is often translated as to mean sole proprietorship.
48 The extent of more indirect ties to the state is very difficult to know. An indicator in one particular case was the fact that the firm’s manager had placed the name of the local People’s Committee at the top of his business card.
49 Analyzing the 1993 Livings Standards Survey, P. M. Vijeberg also observed that private Vietnamese firms had been in operation for a surprisingly long time. One third of that sample had started within the past 2.5 years, one third were older than 7 years, and a fifth were older than 11 years. Vijeberg shows how these numbers are comparable to those for other developing countries considered to have more favorable policy towards private enterprise such as Ghana and Cote d’Ivoire (See Vijeberg, “Nonfarm Household Enterprises in Vietnam”, p. 141 in David Dollar et al. (ed.), Household Welfare and Vietnam’s Transition, Washington, DC: The World Bank, 1998).
cooperatives—referred to as *to san xuât* or "production units"—until they reached a size that required them to register as official cooperatives.

4.06. Half of all managers registered their firms in 1992 and 1993. In the years since, the number of registrations has trailed off considerably (Figure 4.1). There are several plausible explanations as to why so few of these larger firms have recent registration dates. One is that Vietnamese firms are small when they register, and they need years to grow to the size of 100 or more employees. The implication here is that virtually the only path to establishment of a large firm is by starting small and growing steadily, and that capital, know-how and market access can not support large firm entry. A second explanation is that there is little room at the top, i.e., that these early movers seized the few opportunities that are available for larger private firms in an environment that is much-dominated by state enterprises, and there are few large market niches remaining. And a third explanation is that the business environment has worsened in recent years and a decreasing number of new firms are willing to assume the risks that come with significant investment. Each of these explanations implies the presence of bottlenecks that are constraining the growth in the number of private firms and functioning to keep the vast majority of Vietnamese firms very small in size.

4.07. *Who Started Them?* In almost all cases, current owners were the primary actors in starting up their firms. Almost half (45%) were established by individuals, some alone and some with family members. Two or more friends jointly established a third of firms. Only four managers took over state enterprises and one person started up by buying a workshop from a state enterprise.

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51 Authorities apparently did not strictly enforce company registration until almost two years after the Company Law was passed in 1990.

52 A corollary to this explanation is that the government is still uncomfortable with the short-term social consequences of the high volume of firm turnover associated with a market economy. Government policy, therefore, has not moved toward creating a truly competitive environment that allows for both frequent firm entry and exit.

53 Included in this argument would be the idea that entrepreneurs are less confident of where the reform process is going than they were a few years ago.
4.08. None of these four transfers from state to private ownership occurred by means of the official equitization process. Two former state firms are reported to have been largely bankrupt when bought by current private owners. A third enterprise was established originally by a local police station in the south. After three years in operation, doubt about the legality of a police station running a business prompted privatization of the firm, with individual police officers retaining a total of 50 percent ownership. In the fourth case, a major lieutenant retired after three decades in the army and was, in effect, awarded a state enterprise, which he subsequently registered under the Company Law.

4.09. Several other companies reported very close connections to state enterprises at startup. Several began operations under the name of local state enterprises, but operated independently and for their own profit from the start. It was not clear whether these managers had to pay a fee to the state enterprise when they made their official move into the private sector. One company was actually established by a state enterprise that took a 20 percent ownership stake at startup. The manager said that it was very hard to establish a private company in 1990 because of the lack of clear relevant laws and the government’s inexperience in dealing with private companies. According to the manager, the fact that his firm was established by a state enterprise is what made startup possible.

4.10. *Industries.* Sample firms were highly concentrated in five industries: nearly 90 percent manufactured garments, wood products (including furniture), leather products, ceramics, and food and beverage products. Garments manufacturers dominated the sample, accounting for 34 percent of the total.\(^{54}\)

4.11. Unlike the case in many other transitional, high-risk economies, few sample firms demonstrated any degree of diversification in their products. Half received 100 percent of their revenue from one main product group. Few firms had significant secondary products, and those who did chose closely related products, such as textile firms that

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54 Comparison with GSO statistics shows that the distribution of these randomly selected firms accurately reflects the distribution across industries of the population of larger private manufacturers in Vietnam. These five industries account for 71% of all larger private manufacturers and 79% of all private manufacturers with 300 or more employees.
produced some garments and wood products firm that made some furniture. This lack of diversification is, in part, the result of a rigid Vietnamese legal framework that only allows private firms to manufacture the products for which they registered. Close oversight by local officials keeps private entrepreneurs from registering for a broader scope of activities than is actually true at start-up, and adding additional activities later is reportedly a long and expensive process. Only four sample firms reported earning significant revenues from trade activities.  

4.12. **Revenues.** The median firm claimed annual sales revenue of 10 billion VND (US$725,000) in 1998. Two large firms with reported sales revenues of 100 and 300 billion VND (US$7.25 and US$21.75 million) helped raise the average annual revenues of the sample to just over 20 million VND (US$1.5 million). The north-south gap in sales revenue is notable: median sales revenue of 14 billion VND (US$1 million) among southern firms was more than double the northern firms’ median of 6.9 billion VND. In fact, only two northern firms were in the sample’s top quarter of revenue earners.

![Figure 4.3: Regional Differences in Annual Revenues](image)

B. Labor

4.13. **Size of the Labor Force.** Ascertaining the real number of workers in sample firms turned out to be no small task. There are several different classifications of employees, including official full-time employees, unofficial full-time employees, and part time and seasonal employees. Interviewers asked for all three figures and then totaled then all (multiplying the number of part time and seasonal employees by 0.5) to arrive at a figure that should approximate the total labor force in each enterprise.  

<table>
<thead>
<tr>
<th>Less than 5 bil. VND</th>
<th>12</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-9 bil. VND</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>10-24 bil. VND</td>
<td>7</td>
<td>21</td>
</tr>
<tr>
<td>25-49 bil. VND</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>50-99 bil. VND</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Over 100 bil. VND</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

![Figure 4.3](image)

---

55 This pattern is an interesting contrast to the first waves of manufacturers in transitional Eastern European countries who commonly started out in trading activities to earn fast and high returns which they progressively plowed back into nascent manufacturing activities.

56 Vietnamese private firms often conceal the exact number of workers they employ from authorities in order to minimize costs, and many managers expressed a belief that state taxes on labor are unreasonably high. Nearly a quarter of sample firms admitted to having a higher number of full-time employees than they officially reported to the government. Furthermore, many firms relied heavily on seasonal workers.
4.14. As shown below, calculations of total employment reveal that sample firms are actually quite a bit larger than the study’s minimum of 100 employees. Median official full-time labor numbered 200, and median actual full-time labor was 270. Median seasonal workers per firm were 40, with 10 percent of sample firms hiring 500 or more seasonal workers a year. Using this formula, total median employment was calculated at a larger than expected 330 employees. The average cost to the employer of each of these 330 employees was 640,000 Vietnamese dong.

<table>
<thead>
<tr>
<th>Official Number of Employees</th>
<th>Actual Number of Employees</th>
<th>Seasonal and Part-time Employees</th>
<th>Total Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>270</td>
<td>40</td>
<td>330</td>
</tr>
</tbody>
</table>

4.15. As intended, sample firms were split almost evenly between firms with fewer than 300 employees (46%) and those with 300 or more (54% of firms). Authors were surprised by the size of the largest firms: 11 firms (12%) had 1000 or more employees, the largest of which employed 2,500 workers. Southern firms were generally larger with median total employment of 338 compared with 295 for northern firms. Firms manufacturing leather products were by far the largest companies, employing a median of 850 workers per firm.

4.16. Employment Growth Rates. The most encouraging finding of this survey is the strength of employment growth within sample firms. Clearly, larger private manufacturing firms are creating new jobs at a significantly higher rate than is any other domestic enterprise type. The median firm expanded its workforce five-fold since beginning operations, growing at 19 percent a year. Median annual employment growth since registration—a more accurate indicator of growth under current economic conditions—was even stronger at 23 percent. Annual labor growth since registration was twice as high among northern firms as among southern firms, not surprising given the smaller start up size of northern firms. Absolute labor growth per firm was virtually equal.

<table>
<thead>
<tr>
<th>Employees at Start Up</th>
<th>Employees at Registration</th>
<th>Annual Growth Since Start Up</th>
<th>Annual Growth Since Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>69</td>
<td>19%</td>
<td>23%</td>
</tr>
</tbody>
</table>

4.17. Firms with the highest growth in employment tend to be the newer firms in the sample. Firms established in the past five years saw their labor forces grow 50 percent faster than the sample as a whole. Similarly, the larger firms in the sample (those with 300 or more employees) were in fact not larger than the average when they registered.
Box 4.1: Top Problems Cited by Managers

Managers were asked to list, in order, the top three problems their business faces today. Lack of access to capital and to information are right at the top.

Table 4.3: Major Constraints Identified by Managers*

<table>
<thead>
<tr>
<th>Problem</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unable to get investment capital</td>
<td>53%</td>
</tr>
<tr>
<td>Lack of information</td>
<td>41%</td>
</tr>
<tr>
<td>Insufficient working capital</td>
<td>39%</td>
</tr>
<tr>
<td>East Asian economic crisis</td>
<td>19%</td>
</tr>
<tr>
<td>Unclear government policies</td>
<td>16%</td>
</tr>
</tbody>
</table>

* Chart shows the percentage of managers that mentioned the problem among their top three problems.

Unable to Get Investment Capital. Lack of access to investment capital, the most frequently cited problem, came as no surprise to authors as this problem is well documented in all firm-level surveys in Vietnam. Managers agreed that collateral requirements represent the largest obstacle to their accessing loans of significant size and maturity. Not only are collateral requirements too high, valuations too low, and categories of acceptable collateral too narrow, but the fact that state enterprises do not need collateral to obtain loans means that the lion’s share of available credit funds, most importantly scarce term resources, go to state rather than private firms. In a sense, the emphasis that managers placed on investment capital was a sign of self-confidence—many believed that given fair access to capital, their businesses would flourish. Without access to investment capital for new equipment purchases and facility expansions, many firms continue to operate with mis-matched or otherwise sub-optimal production equipment and in typically very cramped factories.

They simply grew faster. Prominent among these fast growers are leather product manufacturers and garments producers, with median annual employment growth rates of 60 percent and 25 percent, respectively. Food and beverage firms also saw annualized growth rates of 25 percent, but the base was very small for most of these companies.

4.18. One Ho Chi Minh City garment firm was very impressive in its skyrocketing growth. It began in 1992 with 30 sewing machines and 50 employees. Today, the company has 750 sewing machines on its garment production line and another 800 machines on its recently established shoe production lines. In total, the company labor force now includes 2,225 regular employees (plus 375 seasonal workers). This represents an annualized growth rate in employment of 73 percent.

4.19. Labor Practices. Managers reported few problems with recruitment. Most relied on informal means, including word of mouth, family connections and personal referrals. Thirty-two managers (34%) said they recruit new workers by advertising. Often this consisted of simply putting up a sign at the entrance to company grounds, though some managers also reported using newspaper ads. Several managers went through local community leaders, including the Catholic church. Only 15 firms (16%) relied on official government agencies to recruit new employees.
Lack of Information. Managers were most concerned about their lack of information about foreign markets, both input and output markets. One manager showed his interviewer industry magazines more than two years old, which he said were his best source of information on new technologies. While 67 firms (71%) had joined government-run business associations, few were satisfied with the information benefits of membership. And without the freedom to set up fully private associations that cater to the specific needs of private firms, the kinds of processed industry and market information that business associations offer is scarcely available. Some managers expressed frustration over their inability to find information about alternative suppliers and buyers and about pricing that would strengthen their positions with buyers. It should be noted that, due to its very nature, however, the problem of lack of information is often not fully recognized by those that it constrains. Interviewers felt that this was also the case among a good number of managers.

Working Capital. While only third when all problems are pooled, insufficient working capital was, in fact, the most frequent answer to the question, “what is the number one problem facing your business today?” In fact, 22 percent of all sample firms named lack of working capital as their number one problem. As discussed, many sample firms had, in fact, obtained multiple short-term loans from banks, but the reality is that it has been insufficient for their needs. Short supplies of working capital reinforce private firms’ “capture” by buyers that provide them with all inputs, e.g., many garment companies. Inadequate working capital also commonly forces a kind of stop/go production as financial buffers between orders are too thin. This problem can be viewed as the most regrettable, as it is a clear case of the banking system not keeping up with firms’ successes.

(continued on next page)

4.20. In fact, Vietnam’s huge pool of surplus labor makes it quite easy for most private sector managers to find the employees they need. The vast majority of manufacturing jobs in the private sector requires limited previous education or training. For such relatively unskilled work, only 15 managers (16%) reported any recruiting difficulties.57 Similarly, managers rarely reported difficulties with finding professional managers. Many, in fact, reported a very limited need in this area, often preferring to fill management positions with trusted family and friends. The main problems with recruitment were in attracting technical staff, such as engineers, foreman and master craftsmen. This has clearly been a good deal harder as 52 managers (54%) reported difficulties in this area.

4.21. While most jobs fell under the category of “unskilled” work, 88 of 95 managers (93%) reported that they provide in-house training to new employees. Few managers had kind words for the various state-run training institutions. The manager of one of the largest firms reported that he contracts with one of these institutions for his training needs, but said that his firm has had to provide the training center with all the training materials. Due to the scarcity of jobs, new employees are usually willing to work for mere subsistence wages while in training, in some cases even paying fees for initial training.

57 Rather, complaints about low-skilled workers generally revolved around their apparent poor work habits, including frequent delinquency.
The contagion effect of the financial crisis that began in Thailand in July 1997 never blew through Vietnam’s front door because Vietnam’s currency is non-convertable and there is no stock market. The consequences of the crisis have nonetheless been keenly felt by private companies. Exporters in labor-intensive products saw world prices for their product drop dramatically and with them their company revenues. Others, like furniture makers and seafood processors, were hurt when Asian consumers cut back on spending, in some cases canceling orders, in others delaying payment. Wide fluctuations of the Yen were also cited as a difficulty for those exporting to Japan.

Mangers complained bitterly about unclear and frequently changing government regulations that have direct impact on their businesses. Not knowing clear what current regulations are nor how they might be changing turns business planning into a gambling game. At the most general level, managers were hard put to read between the lines of government statements to ascertain the directions winds that affect business were blowing. More practically, managers complained about the lack of clarity concerning land and tax laws. Managers in the wood and furniture industries were particularly irate about a series of sudden changes in laws governing wood exports. Managers said laws too often are changed without warning and that their lack of specificity allows too much discretion among mid-level officials.

Two thirds of total employment by sample firms were women, and 29 firms (31%) reported that 90 percent of their employees were women. The predominance of female labor was not surprising, particularly as garment firms accounted for a large share of firms. Managers informed interviewers that the government offers tax breaks for companies that use mostly female workers.

### Finance

As is the case everywhere, almost all managers (79%) relied on their personal savings, plus those of their families and sometimes their friends, for start-up capital and to finance their first months of operations. Use of bank loans was very rare for young firms: only four of 95 companies financed their enterprise primarily through a commercial loan in the first six months after registration, and two of these four firms had been operating for years previous to registration. Although not documented by this study, it could well be that many of sample firms have financed their start-up in some part through customer advances, especially the case for garments firms where customers provide most of the inputs and therefore lower working capital requirements among their producers.

The number of firms financing their businesses chiefly with company earnings rose steadily over time: 33 firms (36%) were fully financed with retained earnings within the first year after registration, and 48 firms (53%) within the period from the first to third year. Of the 86 sample firms that had been operating for at least three years, 52 (61%) were financing operations fully through reinvestment of earnings at the time of interviews. It was not until one to three years after registration that bank loans became the chief means of financing operations for a significant number of firms (23%).
4.25. *Access to loans from banks.* A surprisingly large number of firms had succeeded in acquiring loans from banks: 64 firms (67%) had received at least one loan, and only three had gone through the full application process and failed to secure a loan.

4.26. Short-term bank loans of six months or less were most common, and 40 firms (43%) had received five or more of these very short term loans. Significant numbers of firms (34 firms, 36%) had received loans of 9 months or longer. The crunch came with longer term loans: only 17 firms (18%) received loans of three years or more, of which 11 firms received loans of four years or more (10 of which operated in the north).

| Table 4.4: Regional Access to Bank Financing  
(Percentage of Firms) | Northern Firms | Southern Firms | Total Sample |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Received bank loan of 6 mos. or less</td>
<td>70%</td>
<td>63%</td>
<td>64%</td>
</tr>
<tr>
<td>Received bank loan of 9 mos. or more</td>
<td>48%</td>
<td>31%</td>
<td>36%</td>
</tr>
<tr>
<td>Received bank loan of 3 yrs. or more</td>
<td>33%</td>
<td>10%</td>
<td>18%</td>
</tr>
</tbody>
</table>

4.27. The fact that 30 percent of firms had never applied for a bank loan was puzzling considering the importance given by managers to obtaining more capital. Reasons for not applying were fairly evenly distributed between those who said that the process was too complicated and was ultimately hopeless, and those who said they simply felt more comfortable limiting their spending to their own savings and company earnings. Managers of both persuasions complained that interest rates were too high and should be subsidized.

The Bank of Industry and Commerce (Incombank) was by far the main long-term lender to sample firms: of 11 long-term loans of four years or more, eight were from Incombank, one from Eximbank, one from IFC, and one from an unspecified Vietnamese bank. At least two of the loans from Incombank, as well as the loan from the unspecified Vietnamese bank, were sourced from a Taiwanese fund specifically intended for private SMEs.

Some managers seemed to have an historical understanding (and expectation) of Vietnam’s banks. Under the central planning system, banks freely provided credit to state enterprises in need, simply printing money when necessary. Reflecting this understanding of how banking works, managers seemed surprised and unhappy that banks expect them to have detailed investment plans before agreeing to give long-term loans. Of course, many expressed their awareness that these historical lending practices still apply to state enterprises.

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4.28.  **Demand for finance.** Two thirds of managers (63 firms) said they needed access to long term capital to purchase new equipment and upgrade their facilities. Many other managers were dissatisfied with their current factories and production machinery, but this smaller group was fearful of assuming long-term debt and of investing further in the current business environment. As noted, almost all felt that obtaining a long-term loan was next to impossible.

4.29. Some managers explained their need for longer-term loans than those that are currently available for use as working capital. Among these were managers of furniture companies who said that there is usually a long period between purchases of imported inputs and final payment. Managers of companies in seasonal industries like cashew production and seafood processing were also among those plagued by this problem. The heavy reliance of Vietnamese companies on East Asian customers has worsened this problem over the past year, as the economic crisis has caused delays in payments and cancellations of orders.

4.30. Those who did want to borrow generally preferred to borrow Vietnamese dong, particularly those who were looking to borrow short-term (60% in this group wanted VND). The preference for borrowing in local currency probably is based on the need to augment working capital that is mostly local currency and the comfort of borrowing in the currency one knows. When asked about borrowing long-term, most managers still preferred Vietnam dong, but nearly a third said it did not really matter to them which currency they borrowed. The fact that most firms were exporting significant shares of their production and therefore earning hard currency makes this indifference understandable.

4.31. Firm managers were asked whether they would consider selling equity in order to raise capital. As would be expected, the five managers of joint stock companies were very interested in all forms of capital mobilization, from listing on the stock market to selling shares to venture capital firms. But only half of the remaining managers responded in the affirmative. Many managers were clearly uncomfortable with the idea of giving up any control over business affairs. The fact that “private” and limited liability companies felt equally ambivalent reflects the fact that, while limited liability companies are required to have multiple shareholders by law, they often have just one de facto manager.

4.32. **Problems with accessing finance.** The great majority of managers complained about their lack of access to credit from banks: 35 percent characterized obtaining a short-term loan as “very difficult” and 70 percent said the same about obtaining a long-term loan. When asked about the main difficulty in securing a loan, half of the managers

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60 Obviously, a stated demand for credit is not actual demand as it would depend on the terms and conditions of loans. Also, some smaller percentage of these firms would actually qualify for loans.

61 One equity option that was explained to managers related to venture capital firms which buy into young firms and provide guidance to help firms in their formative years, relying on the idea that firm shares usually see their biggest increases in these early years. MPDF is looking into the possibility of this type of venture capital in Vietnam and wanted to know how receptive private firms would be to this idea. Other equity options discussed included selling shares on a future stock market.
cited collateral requirements. They were fully aware of regulations that allow private firms to borrow only up to 70 percent of the value of their collateral, while state enterprises face no collateral requirements at all.

4.33. Managers reported that state officials charged with valuing collateral consistently appraise assets at far below their market value. One manager reported buying his house for 30 billion VND and having valued it at 13 million VND immediately thereafter. Another said his property has been valued at 350 million VND, but that he can sell it for 4.7 billion VND. Apparently, there is no mechanism for appealing collateral valuation.

4.34. Only nine percent of firms reported problems in securing foreign currency when they needed it. On the one hand, this was surprising, given current legislation that requires firms to immediately turn over all foreign currency earnings to the bank, but on the other, it could be that many firms are actually not using significant amounts of foreign exchange as their customers often supply inputs, take outputs, and then pay the difference in value. As a number of managers pointed out, firms lose not only valuable time because of this process, but also lose the value of the spread between the rate that banks buy and sell foreign currency.

Box 4.2: The Internet

“The information super highway”, the Internet, was a largely untapped business resource among sample managers. Thirty-one of 95 sample firms (33%) were connected to the Internet, but only a select few saw it as a business tool. Firms in the south were nearly twice as likely to be connected than firms in the north, despite no difference in cost so far as the authors know.

One notable exception was a manager who said she logged on every day to check on the international prices of her cash crops. Several other managers reported using the Internet occasionally to search for customers and suppliers. A couple claimed to have used the Internet for advertising purposes, but none had established a web site. In some cases, managers seemed to be confusing e-mail with the Web. Forty-six firms (48%) subscribed to e-mail services.

Some competition exists between Internet suppliers in Vietnam, and this has resulted in a recent reduction of prices. Still, prices remain relatively high. More important, however, is that most managers are unaware of the vast amount of information available on the Internet, and of the means for accessing that information. Secondary obstacles include insufficient technical and language skills, but neither of these is so significant as to hold back a manager determined to use the Internet.

D. Physical Capital

4.35. Equipment. Most firms had imported the majority of their production equipment. Only 15 firms (16%) relied mainly or machinery produced in Vietnam. Few had sourced from outside the region: 70 firms (75%) had purchased equipment made in East Asia, nearly half manufactured in Japan. In many cases, managers had bought production
equipment directly from their main foreign customer. Garments companies were particularly likely to buy their machinery from Japan—Japanese equipment was the main production equipment for 25 of 32 garments firms (78%).

4.36. Almost all production equipment was less than ten years old, and it was from 1-3 years old in almost half of firms. Only three firms reported that their equipment averaged less than one year old, and only eight said was more than ten years old. There was little evidence of use of or markets for used equipment.

4.37. Land and Factory. The issue of land ownership is muddled in Vietnam. With great understatement, one manager said that it is difficult to explain the rules of land ownership in Vietnam to a non-Vietnamese person. Unfortunately—and more importantly—the truth seems to be that few Vietnamese themselves are sure about the rules on land use. This includes not only managers, but in some cases, even the local officials charged with implementation. There is little doubt that the ambiguities concerning land have had and will continue to have far reaching implications, particularly for investor confidence.

4.38. There is no legal private ownership of land in Vietnam, as all land belongs to the people as a whole and is administered by the state. Access to land is based on long-term land use rights, which can either be “allocated” (giao) or leased by the state to individuals and companies. Land can only be allocated when it is to be used for residential, agricultural, forestry or infrastructure purposes, and there is no time limitation on the agreement. When commercial or industrial activities are the user’s main purpose, the state can not allocate the land but can only lease it with a maximum time frame of 70 years. Both allocated land and leased land can then be further transferred (in effect sold with approval of the state) or sub-let to third parties. Legally, however, commercial and productive land cannot currently be inherited and can be reclaimed by the state if not used for its originally designated purpose. The extent to which the letter of the law is enforced at the local level is very unclear.

4.39. Neither survey designers nor interviewers were fully aware of the above distinctions when this survey was carried out and, therefore, were not able to gather specific information on how these laws are actually implemented. Rather, the data gathered simply reflects managers’ understanding of their land use rights, an understanding that is somewhat at odds with the laws as they are written. For example, they frequently spoke of “buying” land use rights for their business from the state, something that would seem impossible under current laws. The difference between managers’ accounts and the law, of course, may also reflect flexible local implementation of land laws.

4.40. Moving to managers’ perceptions, the 95 sample firms were split evenly between those managers who said they owned land use rights (47 firms) and those who said they

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62 Opposition to private ownership of land remains a central ideological issue for the Vietnamese Communist Party. Land laws were passed in 1987, 1993 and 1998. The decree outlining the specifics of the 1998 land law was released in March 1999.
leased the land for their businesses (47 firms). The one exception was a former high-ranking officer in the army who said that he had been given his land by the government upon retiring.

4.41. Firms in the south were more likely to claim ownership of land use rights than firms in the north. Thirty-three managers from the south, 12 from the north, and two from the center said they owned land use rights. The source of land use rights also differed from south to north. Of the 33 southern firms that said they owned their land rights, 24 said they bought them from private individuals, three from state enterprises, and one from the army. In many cases, southerners bought their land from farmers, which raises the question of whether their land was ever re-categorized as commercial or productive land. Another three managers said they bought their land rights from the state and two more said they inherited them. In contrast, none of the 12 northerners who said they owned land rights had bought them from private individuals. Three bought land rights from state enterprises and two from cooperatives. Of the remaining seven, five said they bought from the government and two said they inherited the land.

4.42. There are several plausible explanations for the higher rates of ownership of land use rights among southern firms than among northern firms. First, the state was far more comprehensive in its nationalization of land in the north in the 1950s and 1960s than it was in the south following unification, and there is significantly more land in private hands in the south.\textsuperscript{63} Second, the bureaucratic obstacles to acquiring land use rights appear to be less imposing in the south than they are in the north. And finally, it may be that because of their not-so-distant history of land ownership, southerners place a higher value on ownership of land than do northerners and have therefore pursued it more vigorously.

4.43. It would seem that the eight firms mentioned above that said they had purchased their land use rights from the state (3 in the south, 5 in the north) were actually leasing from the state, since buying land use rights for commercial or productive purposes is not legal. As for the 47 firms who said they leased their land, another 26 leased from the government, while 15 leased from state enterprises, four from the army, and only two firms from private individuals.\textsuperscript{64}

4.44. The length of land leases varied significantly: eleven firms had leases for 1-2 years; nine for 5-15 years, and 27 for 20-50 years. Shorter-term leases were generally the rule with state-owned enterprises; longer term leases of 20 years or more were almost all with local or state government. Firms leasing from state enterprises commonly complained that they wanted to lease directly from the state for a longer period of time, but that the state enterprises refused to sell (transfer) the land use rights. One sample firm in the north was operating on the grounds of a state enterprise that no longer engaged in any productive operations at all—instead, it earned revenues by renting out its

\textsuperscript{63} Actually, it was not until 1980, with the passing of a new constitution, that private ownership of land was outlawed officially in Vietnam. However, it can be assumed that with nationalization of nearly all industry by the early 1960s, the most commercially valuable land in the north was in the hands of the state.

\textsuperscript{64} Not surprisingly, both of these firms were located in Ho Chi Minh City.
land to a total of 17 different private companies. Firms in the north were more than twice as likely as southern firms to cite land as a major obstacle to their own growth.

4.45. Full, legal land use rights come from the state in the form of a “red book” (so do...). Forty sample firms (42%) reported that they possessed a “red book” for their land. Legally, both those who are allocated land and those who lease land from the state are eligible to receive a “red book”. For the most part, however, “red books” belonged to those who said they had purchased land use rights: only six of 40 “red book” holders said they were only leasing their land. As they were more likely to claim ownership of land use rights, southerners were also more likely to hold “red books”—29 of 40 “red books” were held by managers of firms in the south.

4.46. Those who said they had purchased their land use rights or leased directly from the state but still did not hold “red books” cited reluctance of local officials to issue this documentation and prohibitively high costs associated with obtaining it. On the first count, for example, 10 of 11 firms in Binh Duong province held “red books” for their land, while not far away in one district of Dong Nai province, managers reported their local officials had not yet given out any “red books” at all. On the second count, managers often said they had weighed their need for a formal loan (and therefore for the “red book” as collateral) against the expense of acquiring a “red book”, and some had decided against both. One manager explained that he would only need a “red book” if he planned to sell his land and wanted to get the maximum price.

4.47. Clarity about ownership of land use rights becomes critical when firms apply for loans from banks and collateral security is required (as well as when selling equity). It is generally said that the most important collateral requirement for banks is the official “red book”. However, of 17 sample firms that had received long-term loans of three years or more, only five had “red books”, seven had some other proof of land use rights, and five were leasing.

4.48. Moving to the factories that rest on the land, it was clear that many firms had felt sufficiently secure of access to their land to build factories on the land: 61 percent of firms had built their own factories. The remainder had bought (14%) or leased them (18%). Particularly remarkable was that a number of firms had built their own factories despite holding only short-term leases on their land.

E. Markets

4.49. Output Markets. Sample firms were overwhelmingly export-oriented. A very high 85 of 95 firms (89%) exported at least some portion of their product, and 78 firms (82%) classified foreign markets as their main sources of revenue. The median percentage of product exported for the sample was 97 percent. All garments firms were selling primarily to foreign markets—meaning that fully 32 of 78 exporters (41%) were producing garments.

65 The 17 firms that sold mainly in domestic markets actually produced a wider range of goods, including many food and beverage products, than did the 78 exporters.
4.50. Most exporters produced for consumers from industrialized markets, implying a fairly high quality product. Forty firms (51% of exporters) had their main base of consumers in Western Europe, 15 in Japan (19% of exporters), and eight in North America (10%). Middle income countries like South Korea, Taiwan and the transitional economies of Eastern Europe were the main consumers for the remaining 15 firms (19%). The fact that so many firms have been able to establish a foothold in stable, growing Western markets is a powerful indication of the abilities of many these firms.

4.51. At the same time, a defining characteristic of these exporters has been their inability to access markets on their own, i.e., dependency on trading agents was high. Of the 78 exporters described above, 47 sold through trading agents, and 31 sold directly to buyers/retailers in foreign countries. More specifically, final consumers for 48 firms were located in Western Europe and North America, but only 27 of these firms were selling directly to a retailer in that country. Among the 15 companies whose consumers were in Japan, eight relied on trading agents as a link with retailers and seven had been able to establish more direct links on their own. Among the 47 trading agents doing business with sample firms, 28 came from Korea or Taiwan, seven from Japan, eight from Europe, and the remaining few from several different countries.

4.52. The very high percentage of exporters in this sample might be an indication of problems in access to domestic markets, i.e., we would have expected a much higher percentage of larger Vietnamese companies to be producing in domestic markets than is the case here given the substantial advantage these firms presumably have in local markets. Possible explanations are crowding out by SOEs that have long-entrenched domestic markets and cheaper, partially smuggled, imports from China with which private firms can not compete. In addition, the fragmentation of Vietnamese markets is
not easy to overcome for a private company trying to achieve larger scale operations. There are significant information blocks within the country as well as numerous informal trade barriers between provinces, most perhaps along the lines of “buy local”.

4.53. *Input Markets.* Managers were generally satisfied with the quality and delivery of raw materials and intermediate inputs. Eighty-six percent said that they either “always” or “usually” could get the inputs they needed at the time they needed them. Firms tended to be highly dependent on imported inputs. Only 23 sample firms (25%) imported less than 20 percent of the value of their inputs. The median percentage imported for the sample as a whole was 70 percent of the value of inputs.

4.54. Import dependence varied significantly across sectors. Garments firms were most reliant on imported inputs with a median of 90 percent of the value of inputs coming from foreign markets (see Box 4.3). Among food and beverage companies, on the other hand, the median firm imported none of its inputs. The greatest variety was seen in companies that produced furniture and other products made of wood. This was the result of two different strategies to new legislation banning export of precious wood from Vietnam’s forests. On the one hand, roughly half of firms had switched from precious woods to other, more domestically abundant, sources of wood like rubber tree wood, but on the other hand, about half had continued to use precious woods by importing them from neighboring countries with less stringent environmental laws.
Box 4.3: Trading Agents

Just over half (49) of the 85 sample firms that exported some portion of their product relied on foreign trading agents to get their product into foreign markets. This heavy reliance on trading agents—overwhelmingly from nearby South Korea and Taiwan—is a natural consequence of Vietnam’s still high barriers to information flows about markets. Trading agents provide a market solution to a problem created by information blockages, in effect bridging the information gap between the Vietnamese market and the rest of the world. As such, relationships with trading agents are generally highly valued and nurtured by Vietnamese producers.

But at what cost does this benefit come? Evidence from this survey indicates that the cost is actually quite substantial. Not surprising, revenues of sample firms that used trading agents were substantially lower than those of firms that exported directly. Specifically, median annual revenues of direct exporters were 31 percent higher than median revenues of exporters selling through trading agents. In fact, median revenues among firms selling through trading agents were 20 percent lower than non-exporting companies. Direct exporters were also at least 50 percent more likely to have maintained stable pricing in 1998 as well as to have increased profits, sales revenue and sales volume than were those exporting through agents.

Because information problems occur in both input and output markets, Vietnamese manufacturers’ reliance on trading agents can be quite comprehensive. Fully one third of sample firms bought most, if not all, of imported inputs from the same agent that subsequently bought their final products. And few manufacturers selling through agents know even basic characteristics of the final consumers of their products. Trading agents tend to be all too aware of the information vacuum that creates demand for their service in Vietnam. As such, they are averse to information sharing that might reduce the scarcity value of their services, i.e., they resist giving manufacturers information about alternative, potentially competing, suppliers and buyers. The limited number of foreign traders that have set up fixed offices in Vietnam constrains manufacturers’ ability to compare services among agents.

One sample manager explained that he could not tell the interviewer the value of his inputs, because the trading agent—his sole source for imported inputs—had refused to tell him. “It’s like we’re riding along in our own car, but someone else is at the wheel and won’t let us drive”, exclaimed the manager. Another manager could not answer a question on how much the shirts his company produced eventually sold for: “All I know is the price that I have to pay if I mess up one of the shirts”, he admitted sheepishly.

F. Performance and Trends

4.55. Authors were pleasantly surprised to find that, even in the context of current difficulties, the vast majority of sample firms (83 firms, 87%) reported profits for 1998. Trends, however, were more mixed. Thirty-nine firms (42%) reported that profits had increased in 1998 and 38 firms (41%) said profits had declined. Similarly, 42 firms (44%) said sales revenue and volume had risen in 1998, while 29 (31%) reported that both fell. The deeper decline in revenues relative to volume is easily explained by the fact that 58 firms had been forced to reduce their prices in 1998.
Table 4.5: Trends in Sales Volume and Revenues in 1998

<table>
<thead>
<tr>
<th></th>
<th>Number of Firms</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase a lot</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Increase a little</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>Stay about the same</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Decrease a little</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Decrease a lot</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase a lot</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Increase a little</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Stay about the same</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Decrease a little</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Decrease a lot</td>
<td>13</td>
<td>14</td>
</tr>
</tbody>
</table>
Box 4.4: Mini-Analysis: Winners and Losers

The authors created categories “winners” and “losers” to learn more about the kinds of firms and managers that have succeeded in establishing successful businesses in Vietnam’s transitional economy.* It was encouraging to see that a very respectable 44 percent of sample firms qualified as “winners” and only 31 percent fell into the “loser” category.

<table>
<thead>
<tr>
<th></th>
<th>Winners (42)</th>
<th>Losers (29)</th>
<th>The Rest (24)</th>
<th>Total Sample (95)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attended training course</td>
<td>59%</td>
<td>79%</td>
<td>63%</td>
<td>66%</td>
</tr>
<tr>
<td>Received university degree</td>
<td>46%</td>
<td>57%</td>
<td>65%</td>
<td>54%</td>
</tr>
<tr>
<td>Studied abroad</td>
<td>17%</td>
<td>35%</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>Received a formal loan</td>
<td>62%</td>
<td>69%</td>
<td>75%</td>
<td>67%</td>
</tr>
<tr>
<td>Received loan of 9 months or more</td>
<td>45%</td>
<td>24%</td>
<td>33%</td>
<td>36%</td>
</tr>
<tr>
<td>Received loan of 3 years or more</td>
<td>26%</td>
<td>14%</td>
<td>8%</td>
<td>18%</td>
</tr>
<tr>
<td>Had a “red book”</td>
<td>50%</td>
<td>30%</td>
<td>46%</td>
<td>44%</td>
</tr>
<tr>
<td>Garments producer</td>
<td>26%</td>
<td>38%</td>
<td>42%</td>
<td>34%</td>
</tr>
<tr>
<td>Exported directly, no agent</td>
<td>49%</td>
<td>19%</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>Southern-born manager</td>
<td>55%</td>
<td>23%</td>
<td>23%</td>
<td>42%</td>
</tr>
<tr>
<td>Profitable at time of survey</td>
<td>100%</td>
<td>59%</td>
<td>100%</td>
<td>87%</td>
</tr>
<tr>
<td>Median revenues</td>
<td>14 bil</td>
<td>7 bil</td>
<td>8.5 bil</td>
<td>10 bil</td>
</tr>
</tbody>
</table>

Profile of a “Winner”. It is possible to assemble a rough profile of a typical “winner” among Vietnamese manufacturing companies. This firm was likely started up and managed by a southern-born entrepreneur who came to the private sector from a management position in a state-owned enterprise and who might well have no university degree or formal training. This person has been able to identify and fill a profitable, high-demand niche in domestic markets, e.g., paper products, detergents, noodles and traditional medicines, or a high-return niche in export markets, e.g., coffee, cashews, some seafood, and better quality garments and shoes sold directly to buyers without going through trading agents. This firm is likely to sell directly to its customer without use of trading agents, and its export markets are slightly more likely to be in Western Europe and in North America than in East Asia where markets contracted in 1998. And this manager is much more likely to have received a bank loan with a maturity beyond the typical three months; and in parallel, to be in possession of a “red book” for his/her land.

* It is important to note that people who have built private firms of 100 employees over the past years in Vietnam are, by definition, winners, and these classifications are simply mechanisms by which to compare the top winners with the bottom winners. For these purposes, “winners” are defined as profitable firms that saw profits, sales revenue and sales volume all rise in 1998 (questions 189-192 in the questionnaire, see Annex 3). Since only 12 firms reported that they were not profitable, the “losers” category had to be a bit less tightly defined. “Losers”, as a result are those firms that saw sales revenues and sales volume fall in 1998 (questions 189-190).

(continued on next page)
Profile of a “Loser”. In yet another affirmation of the relative uselessness for business of the universities and training courses attended by these managers, the manager of a typical losing firm had a university degree, had attended at least one training course, and might well have studied abroad. This firm was probably producing in exactly the same industries as winning firms, but it was relatively small, located at the lower end of the value-added continuum and might well have been losing money at the time of the survey. The firm was likely producing garments for sale through a trading agent, most likely from Taiwan or Korea. And this firm will have had considerably lower odds of accessing medium and long-term loans than the typical winning firm.

Where “Winners” and “Losers” Did Not Differ. Winners and losers did not differ by industry: there were 11 garment companies among the winning firms and 11 among the losing firms, 6 leather firms among the winners and 5 among the losers, and 4 ceramics producers among the winners and 3 among the losers. Rather, winners were able to find profitable niches within the same sectors whereas losers were not. There was no difference between winners and losers as regards their location: about 40 percent of winners were located in both the north and the south, and about 60 percent of losers were located in both the north and the south. The difference in median firm age (7 years for “winners”, 9 years for “losers”) was also negligible.

Possible Implications. The conclusion from the above analysis is that success in establishing a winning firm has depended most directly on three factors: choosing a higher rather than lower value-added product; accessing markets directly without selling through agents, and accessing long term credit. That long-term credit is decisive in who succeeds and who does not in Vietnam is intuitive and certainly consistent with what managers themselves said. The implications of exporting directly rather than going through agents are probably more complicated. There is the fact that those who export directly have avoided paying rents to a middleman. Additionally, it could be hypothesized that those who found the means to export directly have displayed a dynamic quality that probably helps them in numerous other ways. In contrast, those exporting indirectly typically had not even found multiple trading agents. A final point is that trading agents typically are buying from producers of similar products throughout the region, perhaps the world, and are always paying the absolute minimum price. It then follows that those producers able to reach retailers directly with a differentiated product are able to command a better price and bigger profit.
Box 4.5: Mini-Analysis: Location

As noted Chapter II, the south is home to most of Vietnam’s private firms. While the south is the commercial capital, the north, of course, is the political capital. To better understand the regional differences at play, authors compared firms from the north and the south. The final sample had a total of 33 firms in the north and 59 in the south.

Access to Resources. As expected, northern firms had significantly advantaged access to resources across the board. The most significant area of advantage was access to long-term loans, where northern firms were more than three times more likely to get loans of three years or more. In fact, ten of eleven sample firms to receive loans of four years or more were located in the north.

<table>
<thead>
<tr>
<th></th>
<th>Located in North (33)</th>
<th>Located in South (59)</th>
<th>Total Sample (95)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received university degree</td>
<td>70%</td>
<td>45%</td>
<td>54%</td>
</tr>
<tr>
<td>Studied abroad</td>
<td>30%</td>
<td>22%</td>
<td>24%</td>
</tr>
<tr>
<td>Have received a formal loan</td>
<td>76%</td>
<td>64%</td>
<td>67%</td>
</tr>
<tr>
<td>Received more than 5 short-term loans</td>
<td>47%</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td>Received loan of 3 years or more</td>
<td>33%</td>
<td>10%</td>
<td>18%</td>
</tr>
<tr>
<td>Have “red book”</td>
<td>27%</td>
<td>53%</td>
<td>44%</td>
</tr>
<tr>
<td>Party member</td>
<td>34%</td>
<td>14%</td>
<td>21%</td>
</tr>
<tr>
<td>Close relatives in the Party</td>
<td>77%</td>
<td>25%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Performance. Northern firms grew at a median annual rate of almost twice as fast as southern firms, but this was more a result of their very small size at registration than of their subsequent labor force expansion—which was basically the same as that of firms in the south. Despite the similar sizes of labor forces in the two regions, however, southern firms reported a median revenue more than twice that of those in the north.

<table>
<thead>
<tr>
<th></th>
<th>Located in North</th>
<th>Located in South</th>
<th>Total Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median labor growth since registration</td>
<td>31%</td>
<td>16%</td>
<td>23%</td>
</tr>
<tr>
<td>Median workers at registration</td>
<td>40</td>
<td>90</td>
<td>69</td>
</tr>
<tr>
<td>Median workers at present</td>
<td>295</td>
<td>338</td>
<td>330</td>
</tr>
<tr>
<td>Sales revenues up in 1998</td>
<td>42%</td>
<td>49%</td>
<td>47%</td>
</tr>
<tr>
<td>Profits up in 1998</td>
<td>48%</td>
<td>27%</td>
<td>42%</td>
</tr>
<tr>
<td>Revenues in 1998 (billion VND)</td>
<td>6.9</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Top quarter of sample re: 1998 revenues</td>
<td>7%</td>
<td>32%</td>
<td>25%</td>
</tr>
</tbody>
</table>

(continued on next page)
Possible Explanations. Despite greater access to resources across the board, northern firms have remained much smaller than southern firms. Some possible reasons include:

- The business environment: local government in the north is less pro-business than that in the south. The end result is greater activity in the south, including a greater number of buyers and suppliers providers;

- Northern managers have had less business experience: 53 percent of sample northerners had no experience at all with their firm’s main product compared to 29 percent of managers in the south;

- Northern firms are more likely than southern firms to be in the struggling garments industry, and revenues among northern garments firms are lower than those of the also-struggling southern garments firms;

- Northern exporters are 31 percent more likely to go through trading agents than are their southern counterparts;

- Northern firms are four times more likely not to export at all;

- The university education enjoyed by northerners has not provided them with skills that are useful in business—and many southerners will have a university-educated younger sibling in the business.

Possible Implications: The North appears to be suffering from a serious information problem. All-important players are affected by this lack of information, from the frequently interventionist government, to under-funded education institutions, to the inexperienced managers themselves. As is the very nature of the problem, the players are often only partly aware of this problem. Numerous firms relying entirely on a foreign trading agent for all of their information on inputs and markets told interviewers that they faced no information shortage because the trading agent provided everything for them. Northern firms, furthermore, were two times less likely to be connected to the Internet than were southern firms—though, as far as the authors are aware, it is no easier or cheaper to use the Internet in the south than it is in the north.
5.01. Chapter II describes the very small size of Vietnam’s entire corporate private sector: roughly 26,000 registered private companies with an average employment of 19 employees per firm and total employment of less than 500,000 people. Only 5,600 of these are manufacturers, 74 percent of which are concentrated in only three industries (food processing, wood products and non-metallic products [chiefly ceramics and glass]) and 81 percent of which are located in south. This small number of manufacturers added employees at the impressive rate of 21 percent in 1998—higher by far than any other domestic enterprise form. And yet, only about 450 of these manufacturers have labor forces of 100 employees or more.

5.02. Chapters III and IV contain detailed profiles of the 95 managers and their firms that were selected randomly from these 450 larger private Vietnamese manufacturers and interviewed by MPDF teams. Here we encounter a dynamic, highly heterogeneous group of individuals from both the north and south of Vietnam, some with long histories of involvement with private enterprise, others new arrivals from state-owned enterprises, and still others who have straddled public and private sectors. Many are extraordinary people who have built their firms with the barest of resources beyond their own hard work, some knowledge/experience with their product, and a powerful intuitive sense of how to do business. These 95 manufacturers had added employees at a median rate of 23 percent per year since registration.

5.03. Three key questions arise from these facts: first, why are there only 5,600 private manufacturing companies in a country with a population of nearly 80 million people? Second, why have only 450 of these 5,600 manufacturers grown large enough to employ labor forces of 100 employees or more? And third, how well positioned are these 450 large manufacturers to serve as Vietnam’s engine of growth going forward? This chapter addresses each of these questions in turn.  

A. Why are private Vietnamese manufacturers so few in number?

5.04. Upon reflection, many explanations for the small size of Vietnam’s private sector generally, and of its manufacturing sector specifically, can be identified. Almost all cluster around three main points: (i) establishing a manufacturing company in Vietnam today is a high-risk endeavor; (ii) private Vietnamese manufacturers operate in a very resource-poor environment; and (iii) investment capital is essentially unavailable.

5.05. A high risk environment. There is little doubt but that a Vietnamese investor confronts numerous risks in starting up a manufacturing company. Some of the main ones would include:

66 A fourth question that is beyond the scope of this paper asks how the 450 larger private companies represented in this work differ from the 5,600 group of all private Vietnamese manufacturers. Putting these findings together with findings from other surveys of the smaller end of the enterprise continuum would create a comprehensive picture of the private manufacturing sector.
• Uncertainty in markets: Managers in this survey were clearly nervous about markets, many having watched demand and prices for their product fall in 1998. How much will purchasing power in Vietnamese markets level off with declining growth rates? What will inflation rates be in the coming few years? How will tariff and non-tariff barriers change? What will interest rates be for local and foreign currency loans? How fast will demand in regional economies recover? When will Vietnam be granted MFN status by the United States? Going forward, at what level will the dong be valued? How will its valuation compare with neighboring country currencies?

• Political uncertainty: Managers had very low expectations of their government, and all keep a watchful eye. To what degree can this private manufacturer count on government protection of his/her legal rights as a private company? Confidence in the government’s commitment to private enterprise is regularly undermined by contradictory government statements and policies—as well as by a stream of negative press, which is owned by the government. Government offers business little protection from corrupt officials and critical propaganda. And most Vietnamese adults have some knowledge of a long history of unpredictable and, at times, quite ruthless, policy changes toward private enterprise.

• A quagmire of government regulations: Managers took for granted the great numbers of regulations that pertain to nearly all aspects of their businesses as well as the fact that many are hard to find, vaguely formulated and variously interpreted, frequently changing, and poorly communicated. Tax and customs regulations were the most problematic. Maintaining conformance with applicable regulations requires much time and vigilance, and penalties for violations can be costly. Decrees and statements from the central government that could be interpreted as positive for the private sector are rarely specific enough to have an impact at the local level. In the end, enforcement rests more with the discretion of the official than with the letter of the law—and herein lies the risk.

• Limited access to useful information: Managers operated with far less information than managers in other countries could/would tolerate. Their risks were much heightened by shortages of key information about products, markets, technologies, trends etc. There are few sources of up to date, high-quality information within Vietnam, and looking outside of Vietnam is not only more costly but few Vietnamese producers know where to look.

• Manufacturing is riskier than other options: In these first years of reform, other investments have offered Vietnamese investors less risky options than has manufacturing. Trading activities are typically high return, quick payback investments. Real estate has also offered high returns in a short time to many others.

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67 Counter to expectations, most sample managers had not had difficulties registering their firms and obtaining licenses needed to be fully legal. In fact, 90 percent were able to register and license their firms in six months or less, 69 percent in three months or less.
5.06. **A resource-poor business environment.** These managers had access to few of the business resources normally used in great quantities and considered essential by companies in market economies. Most demonstrated little awareness of how much it is that they do without.

- **Ambivalence among the public:** Public good will is a resource for business in the sense that it is the public that confers professional status and recognition to business leaders—as well as being their main consumers who must trust producers enough to buy their products. When asked about the public’s perception of private enterprise and profit making, 52 percent of sample managers were of the opinion that the public views these positively. On the other hand, others were willing to talk about a deep prevailing public ambivalence about the “bourgeoisie” who have been vilified for some 45 years in the north and 20 years in the south. And it is hard to counter prevailing beliefs that the only means of getting rich are illicit. Indeed, the strongest impression of the private sector among many Vietnamese might have come from the Minh Phung/Epcosc scandals.

- **Under-developed market support institutions:** Sample managers made little use of market support institutions, in part because they function poorly and in part because some do not yet exist. On the first count, courts, public information agencies, local government, banks, industry associations, trade promotion agencies and universities would be included. On the second count, stock markets, currency markets, and insurance companies would be included. Overall, private firms (along with most Vietnamese citizens) receive poor-quality public services, do without a number of services, and generally operate with fewer options than private businesses in most countries.

- **Under-developed business services.** Few sample firms outsourced even basic business services but rather, depended on in-house employees for these tasks—far from current thinking that building competitive businesses depends on significant outsourcing of services to specialists who can deliver high-quality services in the quantities and time period required and on a variable cost basis. Commonly outsourced business services would include: accounting, training, design, market research, data processing, advertising, and maintenance. The small business services sector in Vietnam rarely targets private Vietnamese companies for its products, rather preferring the larger contracts available from foreign joint ventures and from the occasional SOE. The result is that most private firms perform all of these functions in-house, thereby raising their fixed costs and foregoing the benefits of specialization.

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68 MPDF has recently commissioned a survey of attitudes toward private enterprise among a range of community groups in Vietnam. Once completed, quantitative indicators of public attitudes will be available.

69 For more information on the status of business services, see the MPDF report *Business Services in Vietnam* prepared by Service Growth Consultants Inc in Vancouver, Canada and Thien Ngan (Galaxy) Consulting Ltd. in Hanoi. December 1998.

70 Authors also observed that most Vietnamese managers seemed unaware of the benefits of specialization that accompany outsourcing and were, in any case, leery of sharing business information with those outside their firms.
• **Little experience from which to draw:** There is little experience nationally with light manufacturing which is most attractive to capital-poor private entrepreneurs. Vietnam’s small industrial sector is largely capital-intensive, heavy industry of the type built by most Communist countries. As a result, the pool of Vietnamese with experience in light industry is very small. One of the most valuable of all business resources, one’s own and others’ experience, is therefore in very short supply.

• **Limited sources of appropriate skills training:** As noted throughout Chapters III and IV above, managers with the highest education were among the poorest performers among sample firms. The kinds of things that these individuals had learned in universities and in training courses that 61 of 95 managers had attended clearly had been of little use to them in business. There is now a plethora of western-style business training courses available in Vietnam, but a Vietnamese manager who is looking for a high-quality, practical and applicable business management training course that is taught in Vietnamese will find little available. Fifty-three managers requested training in business management, demonstrating a keen awareness of the skills they lack.

5.07. **Lack of capital.** A very concrete explanation of why there are so few private firms in Vietnam is lack of access to sources of capital, primarily credit from banks. For manufacturers, in particular, the near absence of long term credit from banks makes investment in equipment and factory facilities impossible. As noted, only 11 of 95 sample firms had received bank loans with maturities of four years or more. Why such shortages?

• Vietnam’s history of central planning and decades of severe poverty have left most Vietnamese citizens without savings large enough to start a small company; 71

• Vietnamese state-owned banks, which control 80 percent of financial assets in Vietnam, still lack strong incentives to lend to the private sector as most do not face hard budget constraints and are not, therefore, compelled to lend to the most profitable investment proposals;

• Government regulations discriminate against lending to private borrowers (mainly through collateral and land use regulations), which makes it more costly for banks to lend to private firms and encourages them to lend the bulk of scarce term resources to SOEs;

• Banks have little experience with lending to private companies, even less with project analysis, and are therefore less confident and more likely to fail when they do so.

• Vietnamese banks are short of long term funds as term deposits are scarce and pools of bad debt are large and growing;

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71 For much of the reform period, those with substantial amounts of capital have preferred to invest in the high return real estate sector. Recent economic troubles, however, have burst Vietnam’s property “bubble”.

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• Until very recently, foreign investors were not able to take private Vietnamese companies as partners and instead, were forced to join up with SOEs. This meant that the large volumes of foreign capital (as well as technology and technical know how) that have flowed into Vietnam over the past decade have gone almost exclusively to SOEs and not to private firms;\(^{72}\)

• The lack of a stock market and of venture capital firms (only a few VC firms are still operational in Vietnam) has foreclosed these avenues of equity capital for private firms as well;

B. Why have only 450 private Vietnamese manufacturers managed to grow?

5.08. Why have so few manufacturers been able to move from small to medium size enterprises? The difficulties faced by sample firms which have been able to break through growth barriers yield insights into the reasons why so few firms have been unable to follow suit. These can be grouped into four main constraints: (I) crowding out by SOEs; (ii) lack of sufficient capital; (iii) risks associated with being “big”; and (iv) an inadequate skill base.

5.09. Crowding out by SOEs. There is currently much talk about SOEs crowding out private firms, and this survey was able to document some of the ways in which this might be the case. If crowding out takes place when state firms take a significant share of scarce resources to the detriment of private firms, then the allocation of garment export quotas would be a good example as state firms control this asset to a far greater degree than do private firms. Crowding out likely happens in credit markets where a disproportionate share of term resources go to state firms over private firms. By placing restrictions on potential partners for foreign investors that essentially limited them to SOEs, private firms were squeezed out and did not get access to the flows of capital, technology and know-how that accompanied some FDI in Vietnam. Ownership and/or land use rights in urban, industrial areas are held by SOEs and government and are not often available to private firms. There is probably significant crowding out in the domestic market where SOEs have strong footholds, including access to government contracts.

5.10. In other ways, SOEs have “blocked out” private firms, most often in areas of information. This happens when critical information paths lead only to state enterprises with little or no roadway to private firms. When buyers of various products come to Vietnam to find trading partners, numerous trade associations direct them to SOEs as potential partners. Information about key contracts is held internally by ministries and their enterprises with little access for outsiders. Abroad in official delegations, trade

\(^{72}\) In addition to FDI, ODA—a source of foreign capital that is now growing in relative importance—has also supported state enterprise development over private sector development as almost all ODA is filtered through government ministries and local government and winds up as capital for the state enterprises they supervise.

\(^{73}\) And of course, the parallel, perhaps even more important, question asks what is constraining informal sector workshops (which exists in the tens, if not hundreds, of thousands in Vietnam) from registering and growing as private sector firms. This survey did not focus on this question, but many of the difficulties faced by larger firms surely are entry barriers to small enterprises.
shows and commercial offices, state and only rarely private companies are promoted. In short, most of the information infrastructure in place is built to channel information and opportunities to state companies and only private companies.

5.11. In short, it would seem that only small numbers of private manufacturers have grown to some size, in large part because the resources and markets that are everywhere required for growth are mostly swallowed up by SOEs. But even for those firms that have managed to mobilize sufficient resources and markets to grow, the presence of SOEs seems to have had the effect of narrowing the “space at the top” that can be accessed by private firms, i.e., the most lucrative markets with the most profitable products. Many high margin products have actually been more or less legally reserved for SOEs, e.g., petroleum products, rice exports, often plantation crops such as coffee and cashews, and goods that are subject to export quotas, although a few private firms have been able to move into these products. For the most part, however, private firms have been squeezed into lower margin products, i.e., most food processing, garments and shoes, where entry barriers and returns are relatively low. In the end, even the largest private firms have been marginalized and restricted in their achievements by SOEs.

5.12. **Lack of sufficient capital.** All of the points listed above concerning capital hold true for this question about why firms can not grow as well. Large companies must have ready access to adequate quantities of working capital and of investment capital. Clearly, this access is very limited in Vietnam, and functions as a powerful constraint to growth.

5.13. **The risks associated with being big.** Again, all of the above points about risk are also valid answers to the question addressed here. Big private firms take greater risk in Vietnam by virtue of their size—they simply have more to lose. There is also the “tall poppy” syndrome: those that stand tall are the first to be chopped down. In the past, relaxation of restrictions on the private sector has typically been followed by crackdowns that punish those who were too enthusiastic or too successful in their enterprises. With economic decisions still highly unpredictable and private sector actors continually lambasted in the press, most private sector managers prefer to keep their heads down, i.e., to stay relatively small.

5.14. With height also come more requests for unofficial payments. Interviewers asked multiple questions about the cost to sample firms of corruption. Most managers downplayed the importance of corruption, preferring to see it as a small, acceptable tax that brings tangible benefits. “Grease for the machine” and “diplomacy” were the tongue-in-cheek terms often used to describe these investments. Numerous managers reported that they are key sources of funding for local disaster relief in bad times and for local beauty contests in good times. One manager joked that the local tax collector gets a monthly “salary” from her of 500,000VND. In effect, managers described a steady stream of small payments to many different officials.

5.15. The exception to small payments (and to managers’ acceptance thereof) was the customs administration where many managers reported that they must make large payments to get their products loaded and shipped. One manager broke down her
payments as follows. She makes total payments per year of 500 million VND, half of this to customs officials. She ships 1,000 containers per year and for each container, she pays 250,000 VND: 100,000 to the inspector who comes to her company, 50,000 to the fellow who opens the gate at the shipyard, and 100,000 to the inspector at the shipyard.

5.16. Higher skills requirements for larger companies. It has been well documented that the skills needed to build and manage a large business are significantly more complex than those needed to run small businesses. Wits and intuition, which can be sufficient to keep a small business afloat, are quickly overtaken by the demands of a successful large company. Vietnamese managers of small businesses would presumably view growth with some apprehension, as few would have had any formal business training. As noted, nor is there much appropriate training available that would help them grow their businesses.

5.17. When asked to identify the area where they most need training, most managers cited general management skills. Even though these managers are among the most skilled in the Vietnamese private sector, many expressed awareness that “seat of the pants” management is too often the norm rather than application of formal business skills.

C. How well positioned is this first wave of larger private manufacturers?

5.18. Evidence from this survey suggests a very mixed answer to this question. The short answer is that many managers at the helms of these firms are remarkable people who, if allowed, can be expected to make major economic contributions to Vietnam. The other part of the short answer, however, is that their firms will have to change rather significantly if this contribution is to be realized.

5.19. These managers are learning by doing, and many have moved far up very steep learning curves in the 5-10 years they have been in business. The very fact that they have built fairly large manufacturing businesses in the environment described above attests to their abilities. The large percentage that has been able to produce competitive products for the most sophisticated markets in the world attests to their current skill levels. Formal skills training would supplement this experience, as would greater access to relevant information. In addition to being capable, these managers have proven themselves to be very tough, hard working, and resilient people who will be able to adapt to changing circumstances.

5.20. On the other hand, many are only now facing tough times, and their vulnerability is becoming evident. In the mid-1990s when growth rates were high, investors plentiful, and the dong exchange rate more competitive, buyers were knocking at the doors of many private firms. They are no longer, and managers are faced with the demands of operating fully competitive companies in a much more competitive marketplace. Some are better equipped than others to meet this challenge.
5.21. Most are producing low-entry barrier, low margin products within export industries that are among the most “rootless” in the world, e.g., garments and footwear. Firms that are selling these products through trading agents are simply selling Vietnamese labor, which is currently better value than that of competing countries even though its productivity is generally quite low. Returns are also quite low in these firms, too low now with lower prices in the Asia region, to build big businesses.

5.22. To grow under current conditions, private firms have only two real options: (i) increase efficiency of current production, while expanding the scope of that production to include more profitable components; and/or (ii) shift to more profitable products. To do so will require greater dynamism among managers, a requirement that could be made far easier by government through creation of a more business- and information-friendly environment.

54 A recent team of experts came at the request of MPDF to assess the competitiveness and constraints of the private Vietnamese garment industry, and they estimated that Vietnam’s better private garment firms are operating at roughly 50% of the productivity of the Chinese counterparts.
VI. CONCLUSIONS

A. What We Have Learned: Summing Up

6.01. At the aggregate level. The Company Law was passed in 1990 and at the end of 1998, about 26,000 private companies were operating in Vietnam. They represent small and as yet unchanging shares of total employment (1.2%) and of GDP (7.0%). After adding about 5,000 firms per year from 1992, the numbers of firms added to the total in 1998 was only 1,000. On average, these private firms employ 19 people each for a total employment of roughly 500,000 people. About half of these 26,000 companies are trading companies; roughly 5,600 are manufacturers—the focus of this research.

6.02. Three characteristics of these 5,600 private manufacturers would seem definitive. First, most are relatively small companies: employment averages 46 but median employment is probably half of this. Second, they are highly concentrated in only a few sectors: 55 percent manufacture food and beverage products; 12 percent ceramics and glass; and 7 percent wood products. If garments are included, the percentage of firms in these four industries jumps to 78 percent. Third, they are geographically concentrated: 81 percent are in the south, 15 percent in Ho Chi Minh City alone.

6.03. The managers. From sample data, we know that many managers of private manufacturing companies have come from state employment: in this sample, 50 percent from state-owned enterprises (half of these from management positions); 25 percent from the government; and 25 percent from the informal sector or as new job market entrants. Just over half had had previous experience with manufacturing or trading their products.

6.04. Managers differed in the assets they brought to their private companies. In general, northern managers had relied heavily on political connections, while southern managers relied heavily on previous experience. Those with strong political connections, including having been born in the north, had been favored in their access to university education, travel abroad and term loans from banks. For the most part, however, access to these resources had not translated into larger or better performing companies. To the contrary, firms belonging to those without political connections (and to those born in the south) had grown faster and were significantly larger at the time of interviews.

6.05. The firms. Key characteristics of sample firms were: (i) they were truly private with almost no shared ownership with the government; (ii) they were older than expected with a median age of 8 years; (iii) they were operating in a narrow band of industries: 90 percent were engaged in one of only five industries; (iv) median annual revenues were small at 10 billion VND (US$750,000); (v) but the median total labor force was rather large at 330 employees, and the median annual employment growth rate since registration was an impressive 23 percent; (vi) many had had access to short-term loans from banks (64%) but few to loans with maturities of four years or more (12%); (vii) most had secure if unclear access to their land: three quarters had either purchased or leased long-term land use rights, while the rest had leases of 15 years or less; (viii) they were
overwhelmingly export-oriented: 89 percent earned export revenues, and 78 percent relied almost exclusively on export products; and (ix) performance in 1998 was generally quite positive: 87 percent of firms reported profits and about half of firms reported rising sales and profits for 1998.

6.06. Managers cited the following as their biggest problems:

- Unable to access investment capital, due mainly to collateral regulations (53%)
- Lack of access to key business information, especially on foreign markets (41%)
- Working capital is insufficient to smooth production and grow the business (39%)
- East Asian economic crisis has meant fewer regional orders and lower prices (19%)
- Unclear and frequently changing government regulations (16%)

6.07. Analysis of “winning” and “losing” firms showed clearly which kinds of large firms have performed best and worst thus far. A typical winning firm was likely started up by a southern-born entrepreneur who was previously a manager in an SOE and who might have no post-secondary education or business training. This manager has either located a high-demand niche in the domestic market (food products, basic consumer goods) or a high-return niche in export markets (cashews, coffee, some seafood and garments). This firm has likely received multiple loans from banks. And this firm probably sells directly into Western markets without use of East Asian trading agents.

6.08. The typical troubled firm was producing in the same industries as more successful firms, but it was at the lower value-added end of the spectrum and was significantly smaller. It was likely producing garments for sale through a trading agent from Taiwan or Korea, and its manager knew little about the final destination of the product or about the final consumers. This manager would not have received significant credit from banks.

6.09. In summary, success depended mainly on choosing to produce higher rather than lower value-added products, accessing markets directly without selling through trade agents, and on accessing long-term loans. It did not depend on the industry or on the location of the firms, as there were equal numbers of winners and losers in all industries and in both north and south. Nor did it depend on the age of the firm.

6.10. The issues. Of the many questions that arise from this study, three seem most important. First, why are there only 26,000 private companies and 5,600 manufacturers in a country of the size (and apparent entrepreneurship) of Vietnam? The Company Law was passed eight years ago and by this point, Eastern European counterparts, which are far smaller countries, had tens of thousands more companies registered and operating. Why the lag in Vietnam? Three set of reasons are offered here:

- The investment environment remains very risky economically, politically, and bureaucratically with big information gaps along all dimensions. This is particularly true for private manufacturers who invest more with longer term returns and therefore higher risk;
• The business environment in Vietnam is resource-poor with a dearth of public goodwill, market support institutions, business services firms, aggregate experience with light manufacturing, and individual opportunities to upgrade business skills; and
• Lack of access to capital needed for private investment in manufacturing companies, due mainly to poor-performing banks, government policies on FDI since the early 1990s, capture of ODA by ministries and their enterprises, and lack of a stock market.

6.11. The second main question looks at why only about 450 private Vietnamese manufacturers have been able to grow large enough to employ 100 or more employees. What is blocking growth of smaller firms and, indeed, of the tens if not hundreds of thousands of informal workshops operating in Vietnam? Four explanations seem more important. These are: (i) crowding out by state-owned enterprises that continue to monopolize critical resources, markets, and connections to government; (ii) insufficient capital to support the establishment and operations of larger firms; (iii) the higher risks that come with larger as opposed to smaller firms, particularly the case in Vietnam; and (iv) an inadequate skill base among small manufacturers to make the jump to the demands of larger firms for more formal and more skilled management.

6.12. And the third question asks about the extent to which this first wave of larger private manufacturers is well positioned to serve as an engine of growth for Vietnam going forward. The answer offered is a conditional one. The individuals who head up these firms are well equipped for almost any eventuality. They have built successful firms with few external resources and in unsupportive environments. Their business savvy, work ethic, experience accumulated thus far, and sheer will power and ingenuity give the impression of people who will land on their feet regardless. The fate of their current firms is less certain as many are very vulnerable to fierce competition, low margins, and fickle markets. Considerable shakeout of firms over the coming several years would not be surprising, as Vietnam’s comparative advantage in manufacturing is more sharply defined and better exploited.

B. A Framework for Action

6.13. The findings presented here suggest a clear framework for action. Three objectives should take precedence. The first objective should be to increase the numbers of Vietnamese citizens who establish private manufacturing companies; the second should be to greatly increase the rate at which smaller manufacturers develop into larger companies; and the third objective should be to increase the odds of survival and growth among the small number of private manufacturers who have been able to grow thus far.

6.14. Following the analysis presented in Chapter V, clearing the path for establishment of more private manufacturers starts by lowering the risk of doing so. Investors need to feel that their rights and status as important economic actors are protected, that the rules are fair, known and stable, and that they have enough information to make good decisions. Regional economic risk is not in the hands of the Vietnamese government, but
much of the remaining risk that deters people from registering firms is squarely in the hands of government.

6.15. Of greatest impact would be a steady stream of high-level, unequivocal statements of support for private enterprise, a public campaign to improve the image of private business. Everyone from middle level to local officials to the press would need to get the message that private is protected. Formulating pro-business rules and regulations and putting these into place would need to follow the above policy decision. Once in place, government officials would have to resist the pull to change the rules based on special interest groups and to define the rules so vaguely that too much discretion is left to those who implement them. And information channels of all types would have to be opened to allow investors access to the best information available.

6.16. Vietnam’s current resource-poor environment would need to be transformed into a resource-rich environment that supports those who want to establish private companies—and this is a long-term endeavor as it involves a great deal of institution building. With an improved image, public goodwill would improve over time. Better quality, more pro-business public services means substantial improvements in local government, banks, and universities among others. Development of a vibrant business services sector depends in part on growth of the market for these services and in part on improving the quality of services on offer—best achieved through private associations that upgrade and credential members. And high quality business skills training should be available to virtually anyone with evidence that they can and will apply it to a business.

6.17. Capital should be made available to those who want to establish companies, and there is no easy or foolproof way of providing it and making sure it gets to the right people while maintaining sound banking principles. Everywhere in the world, entrepreneurs start their firms using mainly their own savings, and most people see use of personal funds as essential to ensuring the entrepreneur’s continued stake in the firm. As well, the universal experience is that success in establishing some track record in business is an important predictor of a track record as a sound borrower. That being said, decades of poverty in Vietnam have left almost all its citizens without savings large enough to start up companies and with few honest means of accumulating sufficient capital by other means. Identifying effective means of channeling start-up and/or move-up loans to small manufacturers must be a priority.

6.18. Furthering the growth of small manufacturing companies means reducing obstacles to growth faced by the roughly 5,000 manufacturers who have small but not large companies. Along side lowering their risks, channeling credit to them, and making high-quality training available to these larger firms much as described above, leveling the playing field between SOEs and private companies is the priority, particularly as regards access to resources and to markets. On the resource side, SOEs must be forced to meet the same requirements as those imposed on private firms. This means that their projects must be equally sound and their loans equally well secured to be financed by banks; that

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75 The new Enterprise Law is reportedly a solid step in this direction, both in its content and in the process by which it was formulated—which involved significant participation across the society.
SOEs that can not earn profits must either find a way to do so or must fold; and SOEs should be given no further special access to FDI. On the markets side, this means that the domestic market needs to be opened for participation by private firms at all levels, including wholesale trade and distribution networks as well as government contracts (including ODA-related contracts); private firms should be allowed to form their own associations that can serve their needs for processed market information; and private firms should have fully equal access to export quota allocations.

6.19. Supporting existing larger manufacturers is largely a matter of helping them improve and stabilize their current operations and, at the same time, to move into higher value-added niches in their product groups. Even the best of Vietnam’s private firms could greatly increase productivity and efficiency, both of which depend on access to appropriate technical assistance and capital resources.

6.20. As is actually the case for all sizes of enterprises, access to good-quality, timely information is key. This is not easy in Vietnam where controls on information persist. Making private businesses more secure is highly dependent on the strength of their market connections. Broader exposure to market signals, potential customers, and information on consumer taste and technology trends are all key factors in private companies’ ability to diversify their product lines and move up the value-added chain. While much of the responsibility for pursuing this information lies with private firms, the road they must travel to do so is largely unpaved. In addition to specific steps like clearing obstacles along “the information superhighway” and allowing independent business associations, this requires government to see information sharing and dissemination as a top priority in all areas.
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ANNEX 1: SELECTED TABLES

Table 1: Share of GDP by Economic Sector, 1995-1998

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<th>Year</th>
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</tbody>
</table>

**Source:** General Statistical Office (1999); * GDP based on current prices; in 1998, 11,745 VND = US$1 (Source: Economist Intelligence Unit)

Table 2: Growth in GDP by Economic Sector, 1995-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP * (in billions of VND)</th>
<th>GDP Growth</th>
<th>Industry and Construction</th>
<th>Services</th>
<th>Agriculture, Forestry and Fisheries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>195,566</td>
<td>9.5%</td>
<td>13.6%</td>
<td>9.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>1996</td>
<td>213,832</td>
<td>9.3%</td>
<td>14.5%</td>
<td>8.8%</td>
<td>4.4%</td>
</tr>
<tr>
<td>1997</td>
<td>231,262</td>
<td>8.2%</td>
<td>12.6%</td>
<td>7.1%</td>
<td>4.3%</td>
</tr>
<tr>
<td>1998 (est.)</td>
<td>244,740</td>
<td>5.8%</td>
<td>10.3%</td>
<td>4.2%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

**Source:** General Statistical Office (1999); * GDP based on 1994 price; in 1994, 10,955 VND = US$1 (Source: Economist Intelligence Unit)

Table 3: Share of GDP by Enterprise Sector, 1995-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP * (in billions of VND)</th>
<th>Total</th>
<th>State Sector</th>
<th>Households and Farmers</th>
<th>Foreign-Invested Sector</th>
<th>Collective Sector</th>
<th>Formal Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>228,893</td>
<td>100%</td>
<td>40.2%</td>
<td>35.8%</td>
<td>5.0%</td>
<td>10.1%</td>
<td>7.7%</td>
</tr>
<tr>
<td>1996</td>
<td>272,035</td>
<td>100%</td>
<td>39.9%</td>
<td>35.3%</td>
<td>7.4%</td>
<td>10.0%</td>
<td>7.4%</td>
</tr>
<tr>
<td>1997</td>
<td>313,624</td>
<td>100%</td>
<td>40.5%</td>
<td>34.3%</td>
<td>9.1%</td>
<td>8.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>1998 (est.)</td>
<td>368,692</td>
<td>100%</td>
<td>40.2%</td>
<td>34%</td>
<td>9.8%</td>
<td>8.9%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

**Source:** General Statistical Office (1999); * GDP based on current prices

Table 4: Growth in GDP by Enterprise Sector, 1995-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP * (in billions of VND)</th>
<th>Total</th>
<th>Foreign-Invested Sector</th>
<th>Collective Sector</th>
<th>State Sector</th>
<th>Formal Private Sector</th>
<th>Households and Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>195,566</td>
<td>9.0%</td>
<td>5.0%</td>
<td>10.1%</td>
<td>9.4%</td>
<td>4.2%</td>
<td>9.8%</td>
</tr>
<tr>
<td>1996</td>
<td>213,832</td>
<td>9.3%</td>
<td>7.4%</td>
<td>10.0%</td>
<td>11.3%</td>
<td>10.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td>1997</td>
<td>231,262</td>
<td>8.2%</td>
<td>9.1%</td>
<td>8.9%</td>
<td>9.7%</td>
<td>6.2%</td>
<td>5.6%</td>
</tr>
<tr>
<td>1998 (est.)</td>
<td>244,740</td>
<td>5.8%</td>
<td>9.8%</td>
<td>8.9%</td>
<td>5.7%</td>
<td>5.3%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

**Source:** General Statistical Office (1999); * GDP based on 1994 price
### Table 5: Share of Total Labor by Enterprise Sector, 1995-1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Labor Force (thousands of workers)</td>
<td>34,500</td>
<td>35,792</td>
<td>3.7%</td>
<td>37,000</td>
<td>3.4%</td>
<td>38,200</td>
<td>3.2%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>--</td>
<td>100%</td>
<td>--</td>
<td>100%</td>
<td>--</td>
</tr>
<tr>
<td>Households and Farmers*</td>
<td>90.0%</td>
<td>89.7%</td>
<td>3.4%</td>
<td>89.4%</td>
<td>3.1%</td>
<td>89.6%</td>
<td>3.4%</td>
</tr>
<tr>
<td>State Enterprises</td>
<td>4.5%</td>
<td>5.2%</td>
<td>21.7%</td>
<td>5.3%</td>
<td>4.7%</td>
<td>5.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>State Administration</td>
<td>4.3%</td>
<td>3.6%</td>
<td>-11.5%</td>
<td>3.7%</td>
<td>4.6%</td>
<td>3.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Formal Private Sector</td>
<td>1.0%</td>
<td>1.1%</td>
<td>13.7%</td>
<td>1.2%</td>
<td>12.0%</td>
<td>1.3%</td>
<td>16.2%**</td>
</tr>
<tr>
<td>Collectives Sector</td>
<td>0.3%</td>
<td>0.3%</td>
<td>20.1%</td>
<td>0.4%</td>
<td>16.9%</td>
<td>0.3%</td>
<td>-3.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 6: Share of Manufacturing GDP by Enterprise Sector, 1995-1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1995</strong></td>
</tr>
<tr>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Manufacturing GDP * (in billions of VND)</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>State Sector</td>
</tr>
<tr>
<td>Foreign-Invested Sector</td>
</tr>
<tr>
<td>Households and Farmers</td>
</tr>
<tr>
<td>Formal Private Sector</td>
</tr>
<tr>
<td>Collectives Sector</td>
</tr>
</tbody>
</table>

*Source: General Statistical Office (1999)*; *GDP based on current prices*

<table>
<thead>
<tr>
<th>Table 7: Growth in Manufacturing GDP by Enterprise Sector, 1995-1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1995</strong></td>
</tr>
<tr>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Manufacturing Output * (in billions of VND)</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Foreign-Invested Sector</td>
</tr>
<tr>
<td>Formal Private Sector</td>
</tr>
<tr>
<td>State Sector</td>
</tr>
<tr>
<td>Collectives Sector</td>
</tr>
<tr>
<td>Households and Farmers</td>
</tr>
</tbody>
</table>

*Source: General Statistical Office (1999)*; *manufacturing GDP based on 1994 prices*

<table>
<thead>
<tr>
<th>Table 8: Number of Private Companies by Legal Status, 1993-1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Private Companies</td>
</tr>
<tr>
<td>Year-on-year growth</td>
</tr>
<tr>
<td>“Private” Companies</td>
</tr>
<tr>
<td>Year-on-year growth</td>
</tr>
<tr>
<td>Limited Liability Companies</td>
</tr>
<tr>
<td>Year-on-year growth</td>
</tr>
<tr>
<td>Joint-Stock Companies</td>
</tr>
<tr>
<td>Year-on-year growth</td>
</tr>
</tbody>
</table>

*Source: General Statistical Office (1999)*; *Figures for 1995 are different from those from other years as the General Statistical Office used a somewhat different classification system that one year.*

<table>
<thead>
<tr>
<th>Table 9: Location of Private Companies by Firm Size, 1998 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Less than 100 workers</strong></td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>The North</td>
</tr>
<tr>
<td>The Center</td>
</tr>
<tr>
<td>The South</td>
</tr>
<tr>
<td>Totals</td>
</tr>
</tbody>
</table>

*Source: General Statistical Office (1999)*
Table 10: Location of Private Companies by Number and Size, 1997 and 1998
(Both 1997 and 1998 figures are estimated)

<table>
<thead>
<tr>
<th>Location</th>
<th>1997 Number of Firms</th>
<th>1998 Number of Firms</th>
<th>'98/'97 growth</th>
<th>1997 Ave. Employees Per Firm</th>
<th>1998 Ave. Employees Per Firm</th>
<th>'98/'97 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Totals</strong></td>
<td>25002</td>
<td>26021</td>
<td>4.1%</td>
<td>17</td>
<td>19</td>
<td>11.8%</td>
</tr>
<tr>
<td>The North</td>
<td>2040</td>
<td>2062</td>
<td>1.1%</td>
<td>19</td>
<td>21</td>
<td>1.1%</td>
</tr>
<tr>
<td>Hanoi</td>
<td>4187</td>
<td>4428</td>
<td>5.8%</td>
<td>22</td>
<td>25</td>
<td>13.7%</td>
</tr>
<tr>
<td>Ha Tay</td>
<td>413</td>
<td>480</td>
<td>16.2%</td>
<td>26</td>
<td>44</td>
<td>71.1%</td>
</tr>
<tr>
<td>Hai Phong</td>
<td>178</td>
<td>237</td>
<td>33.1%</td>
<td>32</td>
<td>24</td>
<td>-23.8%</td>
</tr>
<tr>
<td>Thai Binh</td>
<td>163</td>
<td>180</td>
<td>10.4%</td>
<td>36</td>
<td>30</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Hai Duong</td>
<td>156</td>
<td>175</td>
<td>12.2%</td>
<td>20</td>
<td>31</td>
<td>57.6%</td>
</tr>
<tr>
<td>Others</td>
<td>1237</td>
<td>1288</td>
<td>4.1%</td>
<td>22</td>
<td>23</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>The Center</strong></td>
<td>2087</td>
<td>2292</td>
<td>9.8%</td>
<td>18</td>
<td>21</td>
<td>20.9%</td>
</tr>
<tr>
<td>Khanh Hoa</td>
<td>416</td>
<td>468</td>
<td>12.5%</td>
<td>11</td>
<td>12</td>
<td>7.0%</td>
</tr>
<tr>
<td>Danang</td>
<td>358</td>
<td>393</td>
<td>9.8%</td>
<td>19</td>
<td>20</td>
<td>3.2%</td>
</tr>
<tr>
<td>Quang Nam</td>
<td>212</td>
<td>230</td>
<td>8.5%</td>
<td>10</td>
<td>13</td>
<td>27.2%</td>
</tr>
<tr>
<td>Phu Yen</td>
<td>220</td>
<td>225</td>
<td>2.3%</td>
<td>10</td>
<td>10</td>
<td>1.8%</td>
</tr>
<tr>
<td>Nghe An</td>
<td>154</td>
<td>204</td>
<td>32.5%</td>
<td>14</td>
<td>16</td>
<td>15.7%</td>
</tr>
<tr>
<td>Others</td>
<td>727</td>
<td>772</td>
<td>6.2%</td>
<td>26</td>
<td>26</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>The South</strong></td>
<td>18728</td>
<td>19301</td>
<td>3.1%</td>
<td>16</td>
<td>18</td>
<td>11.7%</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>6304</td>
<td>6279</td>
<td>-0.4%</td>
<td>24</td>
<td>25</td>
<td>6.0%</td>
</tr>
<tr>
<td>Tien Giang</td>
<td>1027</td>
<td>1050</td>
<td>2.2%</td>
<td>10</td>
<td>12</td>
<td>20.6%</td>
</tr>
<tr>
<td>Kien Giang</td>
<td>990</td>
<td>1039</td>
<td>4.9%</td>
<td>8</td>
<td>9</td>
<td>4.4%</td>
</tr>
<tr>
<td>Ben Tre</td>
<td>912</td>
<td>912</td>
<td>0.0%</td>
<td>9</td>
<td>10</td>
<td>15.3%</td>
</tr>
<tr>
<td>Dong Nai</td>
<td>733</td>
<td>780</td>
<td>6.4%</td>
<td>20</td>
<td>22</td>
<td>11.1%</td>
</tr>
<tr>
<td>Others</td>
<td>8762</td>
<td>9241</td>
<td>5.5%</td>
<td>12</td>
<td>15</td>
<td>21.2%</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (1999)
Table 11: Private Companies by Economic Sector, 1993-1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Private Companies</td>
<td>6808</td>
<td>10881</td>
<td>59.8%</td>
<td>15,249</td>
<td>40.1%</td>
<td>18,894</td>
<td>23.9%</td>
<td>25002</td>
<td>32.3%</td>
</tr>
<tr>
<td>Trade</td>
<td>1,835</td>
<td>3,894</td>
<td>112.2%</td>
<td>7,645</td>
<td>96.3%</td>
<td>12,696</td>
<td>66.1%</td>
<td>13,639</td>
<td>7.4%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3,322</td>
<td>4,392</td>
<td>32.2%</td>
<td>5,006</td>
<td>14.0%</td>
<td>5,767</td>
<td>15.2%</td>
<td>5122</td>
<td>-11.2%</td>
</tr>
<tr>
<td>Construction</td>
<td>462</td>
<td>892</td>
<td>93.1%</td>
<td>1,294</td>
<td>45.1%</td>
<td>n.a.</td>
<td>--</td>
<td>1672</td>
<td>--</td>
</tr>
<tr>
<td>Transport</td>
<td>n.a.</td>
<td>169</td>
<td>--</td>
<td>293</td>
<td>73.4%</td>
<td>n.a.</td>
<td>--</td>
<td>548</td>
<td>--</td>
</tr>
<tr>
<td>Mining</td>
<td>n.a.</td>
<td>22</td>
<td>--</td>
<td>55</td>
<td>150%</td>
<td>60</td>
<td>9.1%</td>
<td>82</td>
<td>36.7%</td>
</tr>
<tr>
<td>Other**</td>
<td>1,189</td>
<td>1,512</td>
<td>27.2%</td>
<td>983</td>
<td>-35%</td>
<td>N.A.</td>
<td>--</td>
<td>3939</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (1999); * According to the General Office of Statistics, counts were incomplete in 1996; ** Other is a catch all category that accounts for companies that did not report their activities in a clear enough fashion for them to fit into any of the above categories.

Table 12: Location of Private Manufacturers by Firm Size, 1998 (est.)

<table>
<thead>
<tr>
<th></th>
<th>Less than 100 workers</th>
<th>100 to 299 workers</th>
<th>300 to 499 workers</th>
<th>500 or more workers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The North</td>
<td>628</td>
<td>58</td>
<td>14</td>
<td>13</td>
<td>713</td>
</tr>
<tr>
<td>The Center</td>
<td>305</td>
<td>27</td>
<td>1</td>
<td>3</td>
<td>336</td>
</tr>
<tr>
<td>The South</td>
<td>4222</td>
<td>214</td>
<td>57</td>
<td>78</td>
<td>4571</td>
</tr>
<tr>
<td>Totals</td>
<td>5155</td>
<td>299</td>
<td>72</td>
<td>94</td>
<td>5620</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (1999)
Table 13: Location of Private Manufacturers by Number and Size, 1997 and 1998
(Both 1997 and 1998 figures are estimated)

<table>
<thead>
<tr>
<th>Location</th>
<th>1997 Number of Firms</th>
<th>1998 Number of Firms</th>
<th>'98/'97 growth</th>
<th>1997 Ave. Employees Per Firm</th>
<th>1998 Ave. Employees Per Firm</th>
<th>'98/'97 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totals</td>
<td>5122</td>
<td>5620</td>
<td>9.7%</td>
<td>39</td>
<td>47</td>
<td>20.8%</td>
</tr>
<tr>
<td>The North</td>
<td>657</td>
<td>713</td>
<td>8.5%</td>
<td>46</td>
<td>67</td>
<td>44.6%</td>
</tr>
<tr>
<td>Hai Phong</td>
<td>304</td>
<td>276</td>
<td>-9.2%</td>
<td>38</td>
<td>53.8</td>
<td>43.4%</td>
</tr>
<tr>
<td>Thai Binh</td>
<td>67</td>
<td>91</td>
<td>35.8%</td>
<td>78</td>
<td>170</td>
<td>219.5%</td>
</tr>
<tr>
<td>Ha Tay</td>
<td>69</td>
<td>50</td>
<td>-27.5%</td>
<td>63</td>
<td>77</td>
<td>23.4%</td>
</tr>
<tr>
<td>Hai Duong</td>
<td>35</td>
<td>44</td>
<td>25.7%</td>
<td>96</td>
<td>78</td>
<td>-18.5%</td>
</tr>
<tr>
<td>Others</td>
<td>176</td>
<td>212</td>
<td>20.5%</td>
<td>35</td>
<td>37</td>
<td>4.8%</td>
</tr>
<tr>
<td>The Center</td>
<td>218</td>
<td>336</td>
<td>54.1%</td>
<td>35</td>
<td>39</td>
<td>11.9%</td>
</tr>
<tr>
<td>Danang</td>
<td>47</td>
<td>60</td>
<td>27.7%</td>
<td>51</td>
<td>54</td>
<td>7.3%</td>
</tr>
<tr>
<td>Nghe An</td>
<td>0</td>
<td>0</td>
<td>--</td>
<td>0</td>
<td>21</td>
<td>--</td>
</tr>
<tr>
<td>Khanh Hoa</td>
<td>25</td>
<td>47</td>
<td>88.0%</td>
<td>63</td>
<td>55</td>
<td>-13.9%</td>
</tr>
<tr>
<td>Thua Thien-Hue</td>
<td>26</td>
<td>38</td>
<td>46.2%</td>
<td>16</td>
<td>16</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Quang Ngai</td>
<td>35</td>
<td>29</td>
<td>-17.1%</td>
<td>16</td>
<td>15</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Others</td>
<td>85</td>
<td>112</td>
<td>31.8%</td>
<td>30</td>
<td>45</td>
<td>48.0%</td>
</tr>
<tr>
<td>The South</td>
<td>4253</td>
<td>4571</td>
<td>7.5%</td>
<td>38</td>
<td>36</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>842</td>
<td>700</td>
<td>-16.9%</td>
<td>100</td>
<td>131</td>
<td>30.6%</td>
</tr>
<tr>
<td>Dong Thap</td>
<td>321</td>
<td>437</td>
<td>36.1%</td>
<td>12</td>
<td>13</td>
<td>7.3%</td>
</tr>
<tr>
<td>Tien Giang</td>
<td>367</td>
<td>390</td>
<td>6.3%</td>
<td>10</td>
<td>15</td>
<td>54.0%</td>
</tr>
<tr>
<td>Kien Giang</td>
<td>276</td>
<td>325</td>
<td>17.8%</td>
<td>8</td>
<td>9</td>
<td>17.2%</td>
</tr>
<tr>
<td>Can Tho</td>
<td>286</td>
<td>292</td>
<td>2.1%</td>
<td>13</td>
<td>13</td>
<td>1.2%</td>
</tr>
<tr>
<td>Dong Nai</td>
<td>283</td>
<td>290</td>
<td>2.5%</td>
<td>34</td>
<td>42</td>
<td>23.4%</td>
</tr>
<tr>
<td>Binh Duong</td>
<td>285</td>
<td>283</td>
<td>-0.7%</td>
<td>95</td>
<td>130</td>
<td>37.5%</td>
</tr>
<tr>
<td>Others</td>
<td>1593</td>
<td>1854</td>
<td>16.4%</td>
<td>17</td>
<td>24</td>
<td>41.1%</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (1999)

Table 14: Private Manufacturers by Industry, 1995-1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Totals</td>
<td>5006</td>
<td>5064</td>
<td>1.2%</td>
<td>5122</td>
<td>1.1%</td>
<td>5620</td>
<td>9.7%</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>D15</td>
<td>2662</td>
<td>1.1%</td>
<td>2692</td>
<td>1.1%</td>
<td>3105</td>
<td>9.2%</td>
</tr>
<tr>
<td>Textiles</td>
<td>D17</td>
<td>261</td>
<td>122</td>
<td>0.8%</td>
<td>103</td>
<td>-15.6%</td>
<td>104</td>
</tr>
<tr>
<td>Garments</td>
<td>D18</td>
<td>190</td>
<td>192</td>
<td>1.1%</td>
<td>274</td>
<td>42.7%</td>
<td>220</td>
</tr>
<tr>
<td>Leather</td>
<td>D19</td>
<td>46</td>
<td>47</td>
<td>2.2%</td>
<td>74</td>
<td>57.4%</td>
<td>65</td>
</tr>
<tr>
<td>Wood</td>
<td>D20</td>
<td>426</td>
<td>428</td>
<td>0.5%</td>
<td>470</td>
<td>9.8%</td>
<td>407</td>
</tr>
<tr>
<td>Paper</td>
<td>D21</td>
<td>93</td>
<td>95</td>
<td>2.2%</td>
<td>113</td>
<td>18.9%</td>
<td>126</td>
</tr>
<tr>
<td>Chemicals</td>
<td>D24</td>
<td>58</td>
<td>58</td>
<td>0.0%</td>
<td>125</td>
<td>115.5%</td>
<td>100</td>
</tr>
<tr>
<td>Rubber &amp; Plastic</td>
<td>D25</td>
<td>94</td>
<td>95</td>
<td>1.1%</td>
<td>161</td>
<td>69.5%</td>
<td>149</td>
</tr>
<tr>
<td>Non-metallic</td>
<td>D26</td>
<td>647</td>
<td>654</td>
<td>1.1%</td>
<td>687</td>
<td>5.0%</td>
<td>657</td>
</tr>
<tr>
<td>Others *</td>
<td>564</td>
<td>576</td>
<td>2.1%</td>
<td>108</td>
<td>-91.2%</td>
<td>544</td>
<td>403.7%</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (1999) * Others is a catch all category that accounts for companies that did not report their activities in a clear enough fashion for them to fit into any of the above categories.
Table 15: Private Manufacturers by Size Across Selected Industries, 1998 (est.)

<table>
<thead>
<tr>
<th></th>
<th>Less than 100 workers</th>
<th>100 to 299 workers</th>
<th>300 to 499 workers</th>
<th>500 or more workers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Firms</td>
<td>5155</td>
<td>299</td>
<td>72</td>
<td>94</td>
<td>5620</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>3026</td>
<td>48</td>
<td>10</td>
<td>21</td>
<td>3105</td>
</tr>
<tr>
<td>Garments</td>
<td>88</td>
<td>85</td>
<td>24</td>
<td>23</td>
<td>220</td>
</tr>
<tr>
<td>Leather</td>
<td>14</td>
<td>13</td>
<td>7</td>
<td>31</td>
<td>65</td>
</tr>
<tr>
<td>Wood</td>
<td>371</td>
<td>25</td>
<td>5</td>
<td>6</td>
<td>407</td>
</tr>
<tr>
<td>Non-metallic</td>
<td>627</td>
<td>26</td>
<td>3</td>
<td>1</td>
<td>657</td>
</tr>
<tr>
<td>Others</td>
<td>1029</td>
<td>102</td>
<td>23</td>
<td>12</td>
<td>1166</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (1999)
The Private Sector
In Vietnamese Industry from 1945 to the Present

§ Tô Ng Phong

Institute of Economics
June 1999
1. **The French period (pre-1945)**

French capital dominated all-important industrial sectors like mining, electricity, engineering, beer and spirits, textiles and construction materials. Next were the Chinese: predominant in agricultural processing industries (milling, foods), timber sawing, textiles and transport engineering.

By the beginning of the 1940’s, Vietnamese business accounted for just 1% of total industrial capital and 9% of industrial employment, concentrated almost exclusively in small and medium sized enterprises in the processing sector. The most well known businesses included:

- **Small-scale milling** – mills owned by Nguyễn Thành Lĩm and Nguyễn Chí u Thăng in Southern Vietnam – output - 100 tonnes per day
- **Vegetable oil pressing** – largest enterprise was that of Trịnh Văn Bồn in Southern Vietnam, employing over 100 workers
- **Sugar refining** – primarily in the two central provinces of Quảng Nam and Quảng Ngãi
- **Textiles and silk** - Nguyễn Khắc Trị’s §ång Lỉi company in Thừa Thiên province, employing over 100 workers and 20 silk weaving machines; Lữ Phúc’s silk weaving firm in Saigon and §µ Lật.
- **Printing** – a total of 17 presses in all, the largest including those of Lã Văn Tám (Hanoi), Nguyễn Khang (Haiphong), Nguyễn Hỏa Vươn and Nguyễn Văn Cã (Saigon).
- **Fish sauce** – in the central coastal provinces, particularly Nghĩa An and Phan Thiết.
- **Rush mats** – three mat weaving works were operating in Ninh Bình by 1902, employing up to 1200 workers.
- **Ceramics** – the largest company was that of Nguyễn Văn Tám in Hội An, with capital totalling 200,000 $, made up of 200 shares
- **Bronze casting** – which developed particularly strongly around Hanoi and in Bêtes Giang.
- **Soap** – the largest enterprise was that of Trịnh Văn Bồn.
- **Paint** – Nguyễn Snh Hµ's Resistanco paint works in Haiphong; Nguyễn Tiến c'n's works in Hanoi, with total capital of 20,000 $ and up to 800 shares.

2. **From the August Revolution 1945 to the Geneva Accords 1954**

Hồ Chí Minh's government issued many policies to promote the development of private business. On 2nd October 1945, the Vietnamese government issued a decree abolishing all French colonial controls relating to the registration of Vietnamese business.  

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76 This summary was commissioned by MPDF and written by Dang Phong from the Institute of Economics. It is presented here entirely as written. It is drawn from a book manuscript entitled Opening the Door: Two Centuries of Markets in Vietnam by Dang Phong with Melanie Beresford, Le Van Hien, Nguyen Dinh Dau & Angie Ngoc Tran. Translation was done by William Smith and Cam Ly.


78 Nguyễn C-ng $nh Bξh; Investigating the Vietnamese capitalist class during the French period; History and Geography Publishing House, Hanoi, 1959, p.57

79 Official Gazette of the Vietnamese Democratic Republic; 1945; p. 23
On 2\textsuperscript{nd} September 1945, Vietnamese independence was declared. On 13\textsuperscript{th} October 1945, Hà Chí Minh announced:

“In order to win our country’s full independence, industrialists and traders must act to build a firm and prosperous financial and economic base. The Government and I will provide devoted assistance”\textsuperscript{80}

On 2\textsuperscript{nd} July 1946, the Government established the Bank of Commerce and Industry, with 50,000 shares, in order to help meet Vietnamese businessmen’s need for capital.\textsuperscript{81} However, the political and military situation in 1945-1946 was unstable. From the end of 1946, the French reinvaded Vietnam and war erupted.

In the mountainous Việt Minh controlled areas, state owned industry was comprised primarily of defence enterprises. The State was unable to organise the production of essential industrial goods for the civilian population, so a policy to promote the development of private business was adopted.

In 1947, President Hà Chí Minh declared:

“We are not advocating class struggle. On the contrary, we are advocating for the development of Vietnamese capitalists”. \textsuperscript{82}

On 17\textsuperscript{th} March 1949, the Joint Ministry of the Economy and Interior issued Declaration 27 NV/KT:

“The basic principle is freedom to conduct business. In the present circumstances, that principle should be paid even more respect, as private business activities are playing an important role in regional distribution.”\textsuperscript{83}

By 1951, at the Second Party Congress, the Vietnamese Communist Party still affirmed that:

“Construction of the national economy requires private capital. Domestic capitalist classes can and should contribute to national industrial and commercial development.”\textsuperscript{84}

These policies to promote private business were actually implemented in practice. The State even sent armed forces into French controlled areas to purchase important raw materials for the supply of private businesses. However, in war conditions, under constant threat from the French army, private enterprises could only operate on a small,
family scale, perhaps hiring a handful of workers. They were mainly involved in processing: soap, textiles, reed mats, matches, pens and ink, chalk, oil pressing, sugar refining etc. Production was almost exclusively temporary and unstable.

From 1953, under the heavy influence of Chinese advisers sent by Mao Zedong to help Vietnam draft economic policies and develop economic institutions, increasing hostility towards landlors and capitalists became apparent.

The French controlled area covered almost all of the main cities, including Hanoi, Saigon, Nam Định and Haiphong. In 1946, France published its “Plan to restore and re-equip the Indochinese economy” (the Bourgouin plan, named after its author). According to this plan, investment of an extra 25.5 billion $ (piastres issued by the Bank of Indochina) would be made in Indochina over 5 years – a figure twenty times greater than the annual budget of Indochina.

However, Việt Minh victories made French investors nervous. The French gradually withdrew capital from Indochina, creating greater space for the activities of local people. Private Vietnamese business had further opportunities to develop. The figures in Table 1 describe industrial enterprises owned by local people within all French controlled areas of Indochina by the end of 1953. The figures include both Laos and Cambodia – separate figures do not exist for Vietnam alone, though perhaps 80-90% of such enterprises were in Vietnam, concentrated in the larger cities of Saigon, Hanoi, Haiphong, Nam Định etc.

Table 1: Locally owned business in Indochina 1949-1953

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of enterprises employing more than 10 workers</th>
<th>Capital (million $)</th>
<th>Capital (as % of all industry in Indochina)</th>
<th>No. of workers</th>
<th>Workers (as % of all industrial workers in Indochina)</th>
<th>Output (million $)</th>
<th>Output (as % of total industrial output in Indochina)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>2722</td>
<td>123.6</td>
<td>1.9</td>
<td>7235</td>
<td>9.3</td>
<td>4.2</td>
<td>2.4</td>
</tr>
<tr>
<td>1950</td>
<td>3265</td>
<td>168.2</td>
<td>2.7</td>
<td>9356</td>
<td>12.7</td>
<td>69.8</td>
<td>3.1</td>
</tr>
<tr>
<td>1951</td>
<td>3520</td>
<td>196.6</td>
<td>4.7</td>
<td>10,750</td>
<td>15.1</td>
<td>81.8</td>
<td>4.0</td>
</tr>
<tr>
<td>1952</td>
<td>3769</td>
<td>215.7</td>
<td>5.7</td>
<td>12,897</td>
<td>16.8</td>
<td>102</td>
<td>5.2</td>
</tr>
<tr>
<td>1953</td>
<td>3934</td>
<td>254.7</td>
<td>6.1</td>
<td>12,945</td>
<td>16.9</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

3. The period of partition - 1954-1975

North Vietnam (from 17th parallel northwards) built a socialist system on the classical Soviet model, with direct assistance from Chinese experts. The main focus of this model was nationalisation of the economy: sterilisation of the private sector was an integral part of this process. The fate of the private sector was decided in three stages:
a) 1954-1957. Almost all the owners of large businesses escaped to the South. Only the small and medium sized enterprises – those who did not have a “political problem” with the Viêt Minh government – remained and were allowed to continue operating legally for the three years from 1955 to 1957.

According to state criteria of the period, the following types of business were categorised as “private enterprise”:

- Enterprises employing more than three workers, with the owner not directly involved in labour
- Enterprises employing just one worker, but using machinery of at least 3 horsepower.
- Enterprises employing over five workers (even if machinery was not used and the owner was directly involved in labour)

The owners of businesses falling below these criteria were categorised as “small owners”, while those who did not hire any labour or utilise any machinery were categorised as “artisans”.

According to these criteria, there were 3065 “private enterprises” in North Vietnam by 1955, of which 957 were industrial enterprises (the remainder comprising 1794 trading enterprises and 314 transport enterprises). Table 2 below describes only the 957 industrial enterprises.

---

85 Hµ Huy Thµnh; The system of legal documents of the Party and Government regarding the individual and private sectors; Institute of Economics; August 1998; p. 6. Hanoi Party Committee; Review of the reconstruction of private capital in Hanoi; May 1960; p.9
Table 2: Private enterprises 1955-1958

<table>
<thead>
<tr>
<th>No. of enterprises</th>
<th>947</th>
<th>US$ equivalent</th>
<th>As % of whole trade and industry sector</th>
<th>As % of whole industrial sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of shareholders</td>
<td>1420</td>
<td>24,500,000</td>
<td>3.6</td>
<td>38.5</td>
</tr>
<tr>
<td>No. of workers</td>
<td>13,301</td>
<td>35.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital</td>
<td>18,245,517</td>
<td>24,500,000</td>
<td>87</td>
<td></td>
</tr>
<tr>
<td>Total horsepower utilised</td>
<td>4700</td>
<td>35.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Value of output

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of output</th>
<th>US$ equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>15,146,010</td>
<td>21,967,360</td>
</tr>
<tr>
<td>1956</td>
<td>25,809,854</td>
<td>35,115,447</td>
</tr>
<tr>
<td>1957</td>
<td>32,982,362</td>
<td>44,873,961</td>
</tr>
<tr>
<td>1958</td>
<td>21,878,134</td>
<td>29,766,168</td>
</tr>
</tbody>
</table>

Total profits 1955-7

<table>
<thead>
<tr>
<th>Year</th>
<th>Total profits</th>
<th>US$ equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>14,651,512</td>
<td>19,934,029</td>
</tr>
</tbody>
</table>

Profit (as % of capital) 28%

Mean annual profit 4,883,888

Mean annual profit per enterprise 5460

Mean monthly profit per enterprise 525

Mean wage of workers 50/month

Mean wage of owner 70/month

Price of 1/10 tael of gold 230

The figures above illustrate that the so-called private sector in industry in North Vietnam was a very small economic force, with each enterprise employing an average of 14 workers and utilising very low-tech equipment (around 5 horsepower). The output of the private sector constituted less than 5% of total industrial output. The average income of private owners was just double that of their own workers. The average monthly profit of a private enterprise was 625 US$.

However, in the eyes of those who had spent years in poverty, who had just returned from the resistance bases in the forest, who perhaps owned just a rucksack and one change of...
... electric fans, cars, neckties etc. were considered a sign of wealth. Moreover, Marxist economic logic taught that all wealth originated, in the end, from exploitation and should therefore be eradicated.

b) 1958-1960. The period of reconstruction took a number of stages. Prior to 1958, the state had implemented a number of preparatory measures:

27th December 1955   Rules issued on the relationship between owners and workers

30th March 1955   Resolution 488/TTg, requiring the registration of all private businesses – including the submission of information on capital, number of workers, type of goods produced, source of raw materials, turnover, profit etc.\(^\text{94}\)

20th March 1956   Resolution 708 TTg - rules for private businesses specifying that all must execute state decisions on the new accounting system.\(^\text{95}\)

19th April 1957   Order issued on the prevention of speculation and hoarding. This became the legal basis on which the state claimed the authority to search the warehouses of private businesses and confiscate goods. On the basis of this order, the state launched a campaign to inventory the stock of private businesses and impose a storage tax. In reality, this was the first seizure imposed on the private sector. The campaign earned 10 million \(\text{vàng}\) for the state – the equivalent of 13.5 million US$.\(^\text{96}\)

September 1957   The Party Central Committee of the Communist Party announced its intention to launch private commerce and industry on the road towards socialism.

In January 1958, the Committee for the Reform of Private Commerce and Industry was established, reporting directly to the Party Central Committee, not the government. The first pilot stage of reform was launched in January 1958, involving 57 industrial enterprises. Lessons were to be learnt for subsequent stages. Many delegations of officials traveled to China in early 1958 to learn from their experiences of reform and thereby assist the drafting of reform plans in Vietnam.

In November 1958, the 14th Plenum of the Central Committee issued an official resolution on the implementation of full-scale reform in four stages. The following methods were used in the process of “peaceful reform”:

\(^{94}\) Official Gazette of the Democratic Republic of Vietnam 1955, p. 76
\(^{95}\) Official Gazette of the Democratic Republic of Vietnam 1956, p. 98
• A delegation of officials from the Reform Committee assessed the business’s value, profitability and workforce.

• Officials met with the workers to incite class hatred and promote the denouncement of exploitation, tax evasion, profiteering and illegal enrichment by the capitalist classes. These meetings posed the greatest threats to business owners. The Reform Committee even sent people to meet wives, children and relatives in order to encourage them to denounce business owners. For example, at the Cù Doanh Textile Enterprise, one of the largest private industrial enterprises in Hanoi, the owner’s son declared “Only now do I realise that my father had built up his fortune on the sweat and tears of the workers.”

• Implementation of “buy out” and “joint private-state business”. “Buy out” did not mean that the state would pay money to the business owner. The ideological basis for the reform was the famous Marxist doctrine that “The source of all capital is exploitation.... The capitalist’s assets in fact belong to the working class. The success of the proletarian revolution is also the moment of the final death of capitalism. He who seizes will, when his turn comes, be seized from.”

However, the Vietnamese state acted in a more humanitarian way than that of the Soviet Union. Allowances were made for the capitalist classes: “buy out” was implemented rather than seizure. Despite the theory that all capitalist assets belong to the state, “buy out” was distinguishable from “seizure” in that the ex-owner was still able to enjoy a 7% share of annual profits generated from the capital that had been bought out (5% in the trade sector). When the total value of profits received equaled the total value of assets lost, then the owner had escaped “bourgeois” status. Under the socialist regime, those with “bourgeois” status were subject to severe discrimination - even their children could not hope to enter university. As a result, most volunteered not to continue receiving these profits after two or three years. Escaping “bourgeois” status was more valuable than the profits themselves. If an enterprise’s average annual profit was 625 US$, then 7% was just 43-44 US$ - equivalent to a worker’s salary for one month. From 1960, there was virtually no `bourgeoisie’ left in existence. The “peaceful reform” had been completed.

In addition to the seizure of private business, the state sent officials to manage these enterprises. The owner and his family were able to work at the enterprise. The highest position they could be given was Deputy Director in charge of technical issues. The lowest position was as a manual labourer, in order to be thoroughly reformed as a “true” worker.

After three years, 889 of the 957 enterprises were reformed, involving 1349 shareholders, capital of 17,521,617 ₫ng and 10,375 workers.

---

97 Committee for the Reform of Industry; Review of the reform of private commerce and industry in Hanoi from June 1958 to May 1960; p. 23
Of the 68 remaining enterprises,

- 20 had dispersed their assets and machinery. When the state came to inspect, they found insufficient capital and equipment to continue production and were forced therefore to allow the enterprises to disband.

- The owners of 13 enterprises gave stiff resistance to the reform process. The state imprisoned these owners and confiscated the business, turning them into state enterprises.

- The owners of 24 enterprises put up lighter resistance. They were not imprisoned, but their enterprises were confiscated and nationalised.

- In 11 enterprises, the owner committed suicide during the reform process, so the state decided to confiscate and nationalise the business. One of these owners was a Chinese mill owner from Haiphong named Chieng. In his last testament, he wrote “with the world in its current state, what is there to live for?”.

So the policy of “peaceful reform” was not applied in 68 out of 957 enterprises (7.1%). Twenty four owners (2.5%) were either imprisoned or committed suicide. In other words, heavy political and psychological pressure was applied during this process.

In September 1960, the state announced that the socialist reform of private industry and commerce was completed. Table 2 shows that by 1958, the private sector accounted for just 2.1% of total industrial output. By 1960, this figure was 0%. The share of the state owned sector increased from 11.2% in 1955 to 89.9% in 1960. Co-operatives, production unions and a very small number of individual producers made up the remaining 11.1%.  

In subsequent evaluations of the reform process, the Communist Party recognised its errors: “President Hồ Chí Minh’s ideology of voluntarism, mutual benefit and joint democratic management was not implemented correctly … A common mistake in the reform movement of 1958-1960 was the rush to abolish the multi-sector economy immediately”.  

In 1960-1975 was a period in which no private sector was considered to exist. Private business was illegal. Management of markets in materials and consumer goods acted as a two way lock, preventing the survival of private business.

Nevertheless, in an economy of shortages, state enterprise production and imports could not satisfy the demands of society. In addition, the American Air Force started bombing Northern Vietnam in 1965 and large scale state industry was one of their principal targets. This situation made it even more difficult for the state to retain its monopoly position: an environment developed in which private business people could survive. All their capital had been seized, but they retained i) management experience and technical
knowledge ii) relationships with relatives abroad and in the South. These factors were not sufficient to enable private business people to “take off” immediately, but did allow them to survive within the shell of what were called “production unions”.

According to official orthodoxy, the socialist economy existed in two forms: state or collective ownership. Co-operatives and production unions comprised the collective sector - a form of socialism which was therefore to be encouraged. From 1965, production unions developed freely in a number of sectors: plastic goods, garments, food processing (sweets, biscuits, noodles etc.), rubber recycling to make tyres, small engineering etc. In addition to production unions, small individual businesses reappeared whose operations local authorities were forced to authorise in order to meet the various needs of a wartime situation. However, such businesses made up a very small proportion of total industrial output. The three areas where production units and individual business developed most strongly were Hanoi, Haiphong and Nam Định. The share of these sectors in the North Vietnamese economy between 1965 and 1975 changed as follows:

Table 3: Industrial sectors 1965 - 1974

<table>
<thead>
<tr>
<th></th>
<th>1965</th>
<th>1972</th>
<th>1974</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of workers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>state sector</td>
<td>220,851</td>
<td>291,215</td>
<td></td>
</tr>
<tr>
<td>collective sector</td>
<td>227,613</td>
<td>304,763</td>
<td></td>
</tr>
<tr>
<td>production unions</td>
<td>31,800</td>
<td>31,980</td>
<td>66,400</td>
</tr>
<tr>
<td>individuals</td>
<td>54,706</td>
<td>65,235</td>
<td></td>
</tr>
<tr>
<td><strong>Output value (1960 = 100)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State</td>
<td>240.8</td>
<td>261.8</td>
<td></td>
</tr>
<tr>
<td>Collective</td>
<td>119.1</td>
<td>133.4</td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>143.1</td>
<td>151.9</td>
<td></td>
</tr>
<tr>
<td><strong>Share of total industrial output</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State</td>
<td>72.8</td>
<td>70.9</td>
<td>75.2</td>
</tr>
<tr>
<td>Collective</td>
<td>23.7</td>
<td>26.2</td>
<td>25.5</td>
</tr>
<tr>
<td>Individual</td>
<td>3.5</td>
<td>2.9</td>
<td>2.3</td>
</tr>
</tbody>
</table>

**South Vietnam**

In the South, the situation was quite the opposite.

Governments in the South used business as a source of political support and therefore had numerous means of protecting private business and promoting its development to the full.

The government levied high, protective tariffs on imported industrial goods (duties of 25%). The import of a number of goods was banned (at least on paper): textiles, paper, plywood etc. Preference was given to the import of machinery and raw materials (maximum duty 9%).

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101 Speech of Deputy Prime Minister Phạm Kim Ngãc (of the old South Vietnam) at Trường Quân sự Military Administration College; 23rd February 1968
One of the main constraints facing private industry in Southern Vietnam was the strength of the Chinese. The Chinese had capital, experience and very wide and close relationships throughout the world. In 1955, the Chinese owned just 1% of all industrial enterprises in South Vietnam, but these accounted for 12% of the capital (22% of total capital in food processing and 35% in the drinks sector). The Chinese owned 12 out of the 35 investment banks in the South.

On 3rd October 1956, the Ngô Đình Diệm government issued Ordinance 53 which forbade Chinese from doing business in 11 economic sectors, including cereal milling, timber sawing, processing of agricultural and forestry products, catching and processing seafood. At that time, the Chinese accounted for 85% of total capital in these 11 sectors.

The Government also supported Vietnamese industry through preferential credit. In 1968, IDC lent 495 million US$ and SOFIDEV lent 297 million US$. By 1st December 1971, the Nguyễn Văn Thiệu government had disbursed up to 10 billion đồng in credit - equivalent to 224 million US$.\(^\text{102}\)

At the same time, in addition to government support, American aid was a source of capital, technology and raw materials for the development of Vietnamese businesses. The benefits of American aid accrued by high level military staff and government officials as a price for maintaining the anti-communist regime also resulted in accumulation of capital and the transformation of government and military officials into business people. The horrific levels of corruption amongst these two groups of people also contributed to the process of capital accumulation. Moreover, as the war deepened in ferocity, increased demand was created. Supplying the American and South Vietnamese armies was an enormous market for Vietnamese business.

According to a government asset inventory of industry in South Vietnam, the total value of fixed assets had reached over 800 million US$ by 1975. According to the North Vietnamese definition of a private enterprise as a business employing at least 5 workers, there were 22,456 such enterprises in South Vietnam by 1975, employing over 250,000 workers. Of these, 8000 enterprises were involved in processing, employing around 100,000 workers.\(^\text{103}\)

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\(^\text{102}\) Reply to questions by the International Monetary Fund on the economy of South Vietnam; Vietnam National Bank 1968, p.29

\(^\text{103}\) Paper by Deputy Prime Minister Trần Phong on the economic situation in South Vietnam. Presented at Prime Minister’s residence office, July 1975. Archives of the Prime Minister’s Residence Office HS IV/431/3
Table 4: Industrial output of private processing enterprises in South Vietnam

<table>
<thead>
<tr>
<th>Product</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloth</td>
<td>250-300 metres/year</td>
</tr>
<tr>
<td>Sugar</td>
<td>200,000 tonnes/year</td>
</tr>
<tr>
<td>Paper</td>
<td>20,000 tonnes paper pulp/year</td>
</tr>
<tr>
<td>Spirits</td>
<td>12-14 million litters/year</td>
</tr>
<tr>
<td>Beer</td>
<td>150 litters/year</td>
</tr>
<tr>
<td>Tea</td>
<td>6000 tonnes/year</td>
</tr>
<tr>
<td>Soap</td>
<td>50-60,000 tonnes/year</td>
</tr>
</tbody>
</table>

Source: Report on a survey into industry in South Vietnam by the State Planning Committee, 2nd June 1975. Institute of Economics Archive VKT, 346/2A

However, the above figures do not reveal the proportion of industrial capacity owned by Vietnamese. According to an estimate by Deputy Prime Minister (of South Vietnam), Nguyễn Văn Hùng, Vietnamese owned industry made up 18% of the total number of private industrial enterprises and 10% of their total output. The remainder was primarily Chinese owned. Prior to March 1956, these people still held Chinese (Taiwanese) citizenship. However, after Ordinance 53 was issued, many rushed to apply for Vietnamese citizenship or to marry Vietnamese citizens in order to continue to be able to do business in the proscribed sectors. For this reason, it is very difficult in reality to disaggregate the share of ethnic Vietnamese and ethnic Chinese business.

Though private Vietnamese industry had grown and developed more strongly than in the North, it suffered from two main problems:

- It was very dependent on foreign raw materials (American cotton, powdered milk, sugar, tobacco, flour etc.) and spare parts (particularly Japanese).

- Its structure was inappropriate: 50% was comprised of food and drink processing, 80% was concentrated in Saigon and its environs and most of what was called production usually entailed just completion of the final stages of the production process.

4. The 1975-1979 renovation

This was the second general sterilization conducted nationwide.

After 1975, within the Communist Party there existed many different opinion in assessing and having an attitude toward the private industry in the South. Some thought that this was a positive component which should be maintained and assisted to exist and develop in order to serve the people’s life in the post-war predicaments and shortage period. In the 4th Party Congress, December 1976, and then in the Politburo’s Resolution 254/NQ/TW, this position was still maintained. That Resolution recognized that the economy of the
South was of multiple component, of which private capitalist was legitimate and should not be eliminated, but instead should be renovated to be compatible to the new regime.\textsuperscript{104}

Vietnam’s Communist Party established the Board for renovation of commercial and industrial private capitalists in the South, headed by Mr. Nguyen Van Linh. As someone with deep insight on the South, Mr. Linh was very hesitating in renovating. He inclined in the direction of helping and encouraging private enterprises develop production and serve the social demand. As a result, throughout almost 3 years starting April 1975 through March 23, 1978, private industrial enterprises still legally operated and obtained certain development, despite many difficulties in terms of raw materials and spare parts.

Table 5: Industrial output 1976-1978 (million dongs in 1982 constant prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>State sector</th>
<th>Individual sector</th>
<th>Percentage of individual in total industrial output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>44805.3</td>
<td>13732.9</td>
<td>21</td>
</tr>
<tr>
<td>1977</td>
<td>50083.4</td>
<td>8928.6</td>
<td>12.33</td>
</tr>
<tr>
<td>1978</td>
<td>53001.3</td>
<td>8072.8</td>
<td>10.31</td>
</tr>
</tbody>
</table>


Since spring 1978, the policy direction for radical renovation, and in fact, for elimination, dominated the budget. Mr. Do Muoi was appointed head of the Renovation Board, replacing Mr. Nguyen Van Linh. Mr. Muoi maintained the application the same approaches applied in the North during 1958-60. On March 23, 1978 the sterilization campaign started: confidentially and unexpectedly, at the same time all private enterprises were searched. All machinery, goods, and raw materials were confiscated. A new management apparatus was appointed by the government to replace the former owner in running the production. Some of owners were jailed. Some escaped abroad, bringing along a hatred which lasted until now and broke itself into extreme anti-communist movements overseas. Consequently, the private economy was killed, while the purpose of production development was not materialized. In the government hands and operated by the government-imposed management, production stagnated.

Also in 1978, another event took place: the xenophobe policy that scared away 300,000 out of 1 million Chinese, who were among the largest entrepreneurs; this further deteriorated the already plummeting production.\textsuperscript{105}

As a consequence, the private industrial output declined from 13.7 billion dongs in 1976 to 8.07 billion dongs in 1978.\textsuperscript{106}

Two years down the road, in a document issued by the Secretariat on June 17, 1980, Vietnam’s Communist Party took a corrective vision on mistakes of the renovation: “The production capacity of most renovated enterprises was not properly utilized, the labor

\textsuperscript{104} Documents of the 4\textsuperscript{th} Congress of Vietnam’s Communist Party, “The Truth” Publishing House, 1977, p.34.
\textsuperscript{106} Statistical Yearbook 1986, p.129.
productivity was low, the economic efficiency worsened, and in general the management deteriorated... The assets received from the renovation were either damaged or lost... Workers were worse-off. Some have quit the job, went abroad. Skepticism, discouragement, and dissidence were rampant, causing undesirable tension...”

In fact, the post-1975 South was totally different from the post 1954 North. Private enterprises still survived the renovation campaigns thanks to two things: first, their local potential and international supports (the role played by overseas Vietnamese and Chinese all over the world); second, their survival capability boosted by the weakening and helplessness of the state sector. The state sector was “weaned” due to the sharp decline in foreign aid, while the private sector was “milked” from the deep-seated relations with relatives and friends in many Western countries. Private enterprises were only temporarily giddy after the unexpected strike in 1978. By 1979, when the national economy embarked on a cycle of crisis and serious slump, the private industry, on the contrary, recovered and thrived:

Table 6: Industrial output 1979-1981 (million dong in 1982 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>State sector</th>
<th>Individual sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>47512.9</td>
<td>27080.9</td>
</tr>
<tr>
<td>1980</td>
<td>40288.9</td>
<td>26636.2</td>
</tr>
<tr>
<td>1981</td>
<td>39800.7</td>
<td>27713.6</td>
</tr>
</tbody>
</table>


5. 1979-1985 period: booming and fence-breaking

Foreign aid from the Soviet Union and Eastern Europe was substantially contracted. Foreign aid from China was totally cut. Under the threat from China, Vietnam decided to join CMEA (in August 1978), and hence had to accept the CMEA import prices, which were 2.5 times higher than the previous preferential import prices. This “weaning” had a big impact on the urgency of changing the old model.

The first important shift took place in the 6th Central Party Committee Plenum in September 1979. For the first time, the Communist Party made a decision to “unfetter the production and business” and allowed them to “boom”.

After the aforementioned Plenum, a series of important changes took place: The Resolution 40CP issued in October 1980 allowed the relax of the central state monopoly in export and import. Instruction 100CT allowed contracting work in agriculture. Resolution 25CP enacted in January 21st 1981 permitted state industrial enterprises to cooperate with other economic agents, this meant to promote the development of non-state agents. Not only in the South, but also in the North, where they seem to be entirely eliminated for 20 years, now the capitalists flourish again like snow flowers.

107 Notification on the Secretariat’s position as a Conclusion of the Conference held on March 28, 1980 on the renovation of private commercial and industrial capitalists in the South, Archives of the Office of the Central Party Committee, No 14thu.
While the state sector underwent the weaning, the private sector was fed with milk from many sources: unofficial trade with the Soviet Union, Eastern Europe, Laos, Cambodia, and trade through long-haul overseas cargo ships (Vosco), remittances and in-kind aid from overseas Vietnamese, etc.; all of these helped build up capital, raw material, machinery and equipment and create market for both the private enterprises and the household economy to develop.

Table 7: Output value of the individual private economy in industry\textsuperscript{109}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Output (billion dong in 1970 prices)</td>
<td>1.4</td>
<td>1.0</td>
<td>1.0</td>
<td>1.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Growth rate</td>
<td>100</td>
<td>72.1</td>
<td>75.3</td>
<td>135.8</td>
<td>202.1</td>
</tr>
<tr>
<td>Percentage in total</td>
<td>30.7</td>
<td>18.2</td>
<td>20.1</td>
<td>30.6</td>
<td>35.9</td>
</tr>
</tbody>
</table>

However, throughout this period both state and private enterprises had to search the way in a situation of “gray light”, no strategy was firmly determined. As always said by the Vietnamese, this was a dilemma. After the 1978 sterilization, the state permitted the “booming” in 1979. And from 1982, when private enterprises prospered too much, a number of restraining measures were taken. Those were the Resolution of the 3\textsuperscript{rd} Plenum in December 1982 and Resolution 01BCT of the Politburo in early 1983 regarding the economic adjustment in Ho Chi Minh City. According to these resolutions, a number of private enterprises were dissolved again or merged to the state enterprises. Others had to be clustered in cooperative enterprises which were controlled by the government by plan. In many cities, and first of all in Hanoi, there was a campaign of expropriating “suspicious houses”. More than 50 houses in Hanoi were confiscated because the owners could no prove the source of their wealth. There were also other consecutive campaigns named X.30, X.50..., allowing the police to search the families that were deemed to be wealthy; and their refrigerators, cassette-players, televisions (the symbols of wealth) were confiscated. However, like the one in March 1978, these campaigns failed to abolish the private economy; what they did was only making the general economy more stagnant, peoples livelihood more difficult. And the government again had to adjust from “left” to “right”, whereas private industry maintained its steady growth.

\textsuperscript{109} Statistical Yearbook 1982, p. 179-180. The individual private sector includes not only private capitalist enterprises, but also family business in petty handicraft industry.
After many years of policy direction impasse, by 1985, with the 8th Central Party Committee Plenum, the Party decided to take a bold step in marketization of the economy system, first by abolishing the planned pricing system, which was too obsolete, and market prices were gradually introduced. By December 1986, in the 6th Party Congress, for the first time reckless decisions were made in recognizing the multi-component economy, recognizing the commercial economy, and the open economy... That was a new opportunity for private enterprises to develop.

6. From 1986 to present

After the 6th Party Congress, the government continuously enacted and implemented economic reform policies, which created an unprecedentedly favorable environment to the development of private enterprises:

In December 29th 1987, the Foreign Investment Law was enacted, officially accepting the foreign capitalist business in Vietnam, and also creating an opportunity for local entrepreneurs to make contact with international partners.

In March 9th 1988 the government simultaneously issued two important decrees: Decree 27/ND regarding private business and Decree 29 regarding family business. No judgment was ever made on the panicking 1978 reform, but these two decrees really brought an official rehabilitation of the right of private enterprises.

By December 21st 1990, the government enacted the Law of Private Enterprise. In the 1992 Constitution, article 57 stipulated “Vietnamese citizens have the freedom to do business in compliance with the law”.

Those legal frameworks, together with the open market, resulted in the boom of private enterprises.

Over ten years from 1986 to 1995, the number of state-owned industrial enterprises dropped from 3141 to 2002. Cooperatives dropped from 37,649 to 1199, or 30 times reduction. Private enterprises in industry (enterprises and companies) rose from 567 in 1986 to 959 in 1991 and 6311 in 1995, or 11 times increase (see chart).

Growth Rates of Different Sector in Industry

![Growth Rates of Different Sector in Industry](chart)

Source: Statistical Yearbook 1995, Page 173, 196, 389

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output, the private enterprise sector was the fastest grower: within 5 years (1990-1994) the growth rate was 773%, whereas the total industrial output grew at only 88.9%, the state sector grew at 102.1%, and the collective sector contracted by 80%.\textsuperscript{111} Figure 2 shows the growth rate of these three sectors over the last 10 years.

Despite their surge over the last 10 years, private enterprises in Vietnam constituted a very small part in the economy in general and in industry in particular. Until 1997, they accounted for only 3.2% of GDP. Their share were even smaller in industry: 2.2% in 1995, 2.3% in 1996, and 2.4% in 1997.\textsuperscript{112} It is noteworthy that while the number of private enterprises increased very fast, the number of bankrupt enterprises was also quite big. In Ho Chi Minh City, it was estimated that during 1996-1998, on average out of 3 enterprises born, 1.31 died.\textsuperscript{113} This indicated that the private sector, though very dynamic, was full of upheavals, with high economic efficiency, but high risk as well. And risks now are not associated with the state sector as it was the case of reforms previously. Risks are from the market. And the severity of risk depends on the capability and strength of the entrepreneur.

Remarks

- \textit{Twenty years, or one to two generations, have passed by since the 6\textsuperscript{th} Central Party Committee Plenum in 1979. But if one looks back further 10 times as much into the past, one can see that the Vietnamese industrial capitalists can be compared to a malnutritious child. First they were squeezed by the Chinese, the French; then after more or less taking part in the revolution together with the whole nation and the country was liberalized, they became the target of renovation, and were repeatedly and continuously periled. Over the last 20 years, had all ambient conditions been favorable, that was not sufficient to make that malnutritious child grow up into a normal adult, let alone the robustness.}

- With such a past of persistent marginalization, the Vietnamese industrial capitalists were short of capital, experience, market knowledge both at home and abroad, especially an indigenous tradition. The capitalists born during the past 20 years were mostly by hazard, thanks to some luck that brought them capital, market, or rent under certain power. It is hard to find among them firms that have been famous for two, three, or four generations in certain industry, which is very common around the world by far (of course, within one or two generations it is not enough to build up a tradition of a firm). This setback, without doubt, leaves defects in the merit: lack of understanding on the market and the business environment, lack of mutual credibility (the firm cannot trust anybody, and not so many trust the firm)... In brief, they lack of a business culture.

\textsuperscript{111}Statistical Yearbook 1995, ps. 166-167.
\textsuperscript{112}Statistical Yearbook 1997, ps. 29 and 165.
\textsuperscript{113}Discussion by Nguyen Thanh Trai at the Francophone economic conference, Hanoi 1997.
In the legal relationship, there exists a fairly complicated syndrome. Among Vietnamese business people, the capability of abiding by the law is less than the capability of evading and breaching the law. Searching their past can help understand the reason: there was time when laws were too draconian to them (and this dracony was entailed by the power and interests of the poor and uneducated majority). Irrational provisions of the law usually have a counter-effect: people are forced not to abide by them in order to exist, in other words, people have to break the fence. This reaction developed into a common habit, even an instinct. Correcting it requires efforts not only of one side, but both, or even more than that. How the law should be so that abiding by it becomes the reason and condition for existence? There also need to be the support in terms of education, information, capital; and there need to be partners to suck business people into the modern world, where they gradually find the both the self-confidence and the need to be trusted. In that way, they will step by step learn the business culture.
ANNEX 3: THE QUESTIONNAIRE

Interviewers: ________________________
Date of Interview: ____________________
Firm Entry #: ______________________

MPDF Survey Questionnaire
January, 1999

A. INTRODUCTION

1. Full name of interviewee: ___________________________________________

2. Interviewer—What is the interviewee’s gender?
   0. Male  1. Female

3. Position of interviewee (Interviewer—get business card from interviewee and staple to front of completed questionnaire)
   0. Owner of the company  1. Director of the company
   2. Deputy Director of the company  3. Manager of a division of the company
   8. Other: ______________________________________  9. N/A

4. Name of firm:
   // Vietnamese: ______________________________________________________
   // English: _______________________________________________________
   // Abbreviated: ____________________________________________________

5. Address of firm (be specific: mailing and physical): ___________________
   // _______________________________________________________________
   // _______________________________________________________________
   // Telephone: ____________  Fax: ____________

6. Interviewer—place firm in appropriate category according to its location:
   0. Ho Chi Minh City  1. Binh Duong  2. Dong Nai
   6. Thai Binh  8. Other: ____________  9. N/A
B. THE COMPANY

Products

7. What is this company’s main product or activity? _______________________
8. ISIC code (Interviewer—fill in later): _____________
9. Interviewer—Is this product:
   0. An intermediate good? 1. A final good?
   8. Other: ________________________________ 9. N/A
10. What percentage of total revenue is accounted for by this primary product or activity? ____________ percent
11. What is this company’s secondary product or activity? __________________
12. ISIC code (Interviewer—fill in later) _____________
13. Interviewer—Is this product:
   0. An intermediate good? 1. A final good?
   8. Other: ________________________________ 9. N/A
14. What percentage of total revenue is accounted for by this secondary product or activity? ____________ percent

Legal Forms and Origins

15.// Please explain to me how this company got started: _________________
   // ______________________________________________________________
   // ______________________________________________________________
   // ______________________________________________________________
16. What is the origin of this private company?
   0. Started business alone
   1. Started business with spouse or other family member
   2. Started business with friend, colleague, classmate or other
   3. Started with a (silent) foreign partner
   4. Bought or took over business from the state
   5. Bought the business from a family member
   6. Bought the business from a non-family member
   7. Inherited the business from a family member
   8. Other: ________________________________ 9. N/A
17. What is the ownership history of this enterprise? **Interviewer**—note that this is intended to mean from when the enterprise first started operations, not from the registration date as a private company.

0. 100% privately-owned and independent since start-up
1. 100% private now, but previously fully/partly owned by or legally connected to the public sector or government
2. 100% private now, but previously owned or legally connected to a larger private company at start-up
3. 100% private now and at start-up, but owned or legally connected to the state for a time during the interim. How long? __________
4. Currently majority-private but legally or commercially connected to an SOE
5. Currently majority-private but legally or commercially connected to a government agency
6. Currently majority-private but legally or commercially connected to a cooperative
7. Previously associated with a cooperative
8. Other: ____________________
9. N/A

18. What percentage of this company is privately owned? _____ percent

19. What percentage of this company is owned by the head of the company and his/her family?

______ percent

20. Who are the other owners? **Interviewer**—make sure that the percentages below total 100 percent and make sense

0. Central government office(s) _____ percent
1. Local or provincial gov. office(s) _____ percent
2. SOE(s) _____ percent
3. Cooperative(s) _____ percent
4. Mass organization or other government-affiliated organization(s) _____ percent
5. Other private Vietnamese partner(s) _____ percent
6. Foreign investor(s) _____ percent
7. Worker(s) _____ percent
8. Other: ____________________ _____ percent
9. N/A

Plus answer to Q19 _____ percent

Total 100 percent

21. If the owners include foreigners, are any of them of Vietnamese ethnicity (*Viet kieu*)?

0. No 1. Yes 8. Other: _____ 9. N/A

22. What is this company’s current legal form?
0. Private (tư nhân) 1. Limited liability 2. Joint-
stock
8. Other: ________________________________ 9. N/A

23. How many years ago did this enterprise actually start operating in any form?

24. In what year did this company register as a legal private company?

8. Other: ________________________________ 9. N/A

25. Interviewer—fill in this question after the interview. Based on the answer to questions
#23 and #24, how long had the company been in operation before registering (for any
answer of greater than one year round off to the closest number)?

0. No time 1. Less than one year 2. One
year 3. Two years 4. Three to five years 5. Six to
ten years 6. 11-20 years 7. Over 20 years
8. Other: ________________________________ 9. N/A

26. Has this company changed legal forms since registering as a legal private sector entity?

0. No 1. Yes (specify: _________________________ )
8. Other: ________________________________ 9. N/A

Problems

What are the three most important problems affecting your business today? List in order
of importance—question closely to get at the real problem. Interviewer—write down
manager’s answers and code later.

27. The most important problem ________________________________

28. The second most important problem ________________________________

29. The third most important problem ________________________________

30.// In what areas do you most lack information vital to your business (for example:
markets, suppliers, industry)?

// ________________________________

// ________________________________

31. What kind of short term training course would be most useful to you, the head of the
company, today?
### Skills to Obtain Financial Services from a Bank

- None
  1. Accounting or bookkeeping skills
- Marketing, including advertising
- Skills to obtain financial services from a bank
  4. Integrating new technologies
  5. Production organization
  6. Management (what kind of management? ________________)
  7. Entering foreign markets
  8. Other: ____________________________

### Have you ever attended any short-term business training courses?

0. No
1. Yes. How many and what kinds? ____________________________

### Are you a member of a trade association or other business association?

0. No
1. Yes (specify: ____________________________)

### If yes, what benefits do you receive from membership? (For example: information on markets, technology, laws and regulations, political representation, education, insurance, special access to low-interest loans, other financial services)

// _______________________________________________________________________

// _______________________________________________________________________

---

### Labor

35. How many owners and their family members work full-time for this business? (Interviewer—This includes nieces and nephews and such)

____________________________________________________

36. Officially, how many full-time wage workers and contract employees do you employ (including family)? ____________________________

37. Interviewer—place the above answer to Q36 in the appropriate category below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 150</td>
<td>0</td>
</tr>
<tr>
<td>150-199</td>
<td>1</td>
</tr>
<tr>
<td>200-249</td>
<td>2</td>
</tr>
<tr>
<td>250-299</td>
<td>3</td>
</tr>
<tr>
<td>300-499</td>
<td>4</td>
</tr>
<tr>
<td>500 or more</td>
<td>5</td>
</tr>
<tr>
<td>Other: N/A</td>
<td>6</td>
</tr>
</tbody>
</table>

38. In actuality, how many full-time wage workers and contract employees do you employ?

____________________________________________________

39. Interviewer—place the above answer to Q38 in the appropriate category below:
<table>
<thead>
<tr>
<th>0.</th>
<th>Less than 50</th>
<th>1.</th>
<th>50-99</th>
<th>2.</th>
<th>100-149</th>
<th>3.</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
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<td>N/A</td>
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<td></td>
</tr>
</tbody>
</table>

40. **Interviewer**—based on the interviewee's responses to Q36 and Q38:

0. The number of official employees and actual employees is the same
1. The number of actual employees is greater than the number of official employees
2. The number of official employees is greater than the number of actual employees
8. Other: __________________________
9. N/A

**Interviewer**—subsequent questions are intended to refer to actual, not official, numbers:

41. How many part-time workers and/or seasonal workers do you currently employ? ___________

42. What type of contract are most of your full-time employees working under?

<table>
<thead>
<tr>
<th>0.</th>
<th>Day-to-day contracts</th>
<th>1.</th>
<th>Monthly contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Multiple month contracts of less than 6 months</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Multiple month contracts of 6 months or more (but less than a year)</td>
<td></td>
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<tr>
<td>4.</td>
<td>Yearly contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Multiple year contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>No contracts, they are permanent employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Other: __________________________</td>
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<tr>
<td>9.</td>
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<td></td>
</tr>
</tbody>
</table>

43. How many of your full-time employees are women? ___________

44. **Interviewer**—**calculate this afterwards**. What percentage of the total number of full-time workers are women? __________ percent

45. **Interviewer**—place the above answer to Q44 into the appropriate category below:

<table>
<thead>
<tr>
<th>0.</th>
<th>None</th>
<th>1.</th>
<th>One to ten percent</th>
<th>2.</th>
<th>11-25 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td>26-50 percent</td>
<td>4.</td>
<td>51-75 percent</td>
<td>5.</td>
<td>76-90 percent</td>
</tr>
<tr>
<td>6.</td>
<td>91-99 percent</td>
<td>7.</td>
<td>100 percent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Other: __________________________</td>
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<tr>
<td>9.</td>
<td>N/A</td>
<td></td>
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</tr>
</tbody>
</table>

46. What was the total number of people working full-time (family, short-term, and long-term) when the business first started operating in any form? ________________

47. **Interviewer**—place the above answer to Q46 into one of the categories below:

<table>
<thead>
<tr>
<th>0.</th>
<th>Less than 50</th>
<th>1.</th>
<th>50-99</th>
<th>2.</th>
<th>100-149</th>
<th>3.</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
<td>Other: __________________________</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>N/A</td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Other: ________________________________ 9. N/A

48. What was the total number of people working full-time (family, short-term, and long-term) when this company officially registered as a private company?

__________________

49. **Interviewer**—place the above answer to Q48 into one of the categories below:

0. Less than 50 1. 50-99 2. 100-149 3. 150-199
4. 200-249 5. 250-299 6. 300-499 7. 500 or more
8. Other: ________________________________ 9. N/A

50. How did you hire most of your workers?

0. Government employment agency 1. Private employment agency
1. Directly through advertisement 3. Directly through personal connections
4. Directly through referrals from others 8. Other: ________________________________ 9. N/A

51. What is the total cost of labor of your business per month (including wages, bonuses, allowances, taxes and social security)? **Interviewer**—you will have to convert this to a monthly basis if the interviewee does not. ________________ VND per month

52. Are your current workers as skilled as you need/want them to be?

0. No. Comment: ____________________________________________
1. Yes. Comment: ___________________________________________
8. Other: ________________________________ 9. N/A

53. Do you provide any training to your workers?

0. No. Why not? ____________________________________________
1. Yes. Please describe. (what kind, to whom, how often, for what duration?)

_________________________________________________________
_________________________________________________________

8. Other: ________________________________ 9. N/A

54. Do you have problems recruiting unskilled workers?

0. No 1. Yes. What problems? ________________________________
8. Other: ________________________________ 9. N/A

55. Do you have problems recruiting technically skilled workers (e.g. engineers, foreman, master craftsman)?
56. Do you have trouble recruiting white-collar professionals (marketing, management)?
0. No 1. Yes. What problems? ________________________
8. Other: ________________________________ 9. N/A

57. What is your biggest problem with financing your business? ______________
// ______________________________________________________________
// ______________________________________________________________
// ______________________________________________________________

What has been the main source of financing for your business? **Interviewer**—check only one for Q58 through 61.

58. … Initially or during the first six months after registering?
0. Own, family and friends’ personal savings 1. Borrowing from family and friends
2. Local (informal) lenders 3. Commercial or investment bank loan
4. Foreign bank or credit organization
5. Cash flow from the business or from other businesses I own (specify: ________________________________ )
6. Borrowing from workers 7. Supplier credits/customer advances
8. Other: ________________________________ 9. N/A

59. … Between the first six months and first year after registering?
0. Own, family and friends’ personal savings 1. Borrowing from family and friends
2. Local (informal) lenders 3. Commercial or investment bank loan
4. Foreign bank or credit organization
5. Cash flow from the business or from other businesses I own (specify: ________________________________ )
6. Borrowing from workers 7. Supplier credits/customer advances
8. Other: ________________________________ 9. N/A

60. … Between the first and third years after registering?
0. Own, family and friends’ personal savings 1. Borrowing from family and friends
2. Local (informal) lenders
3. Commercial or investment bank loan
4. Foreign bank or credit organization
5. Cash flow from the business or from other businesses I own (specify: ______________________)
6. Borrowing from workers
7. Supplier credits/customer advances
8. Other: ________________________________
9. N/A

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61. … beyond three years after registering?

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<tr>
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<td>Own, family and friends’ personal savings</td>
</tr>
<tr>
<td>1.</td>
<td>Borrowing from family and friends</td>
</tr>
<tr>
<td>2.</td>
<td>Local (informal) lenders</td>
</tr>
<tr>
<td>3.</td>
<td>Commercial or investment bank loan</td>
</tr>
<tr>
<td>4.</td>
<td>Foreign bank or credit organization</td>
</tr>
<tr>
<td>5.</td>
<td>Cash flow from the business or from other businesses I own (specify: ______________________)</td>
</tr>
<tr>
<td>6.</td>
<td>Borrowing from workers</td>
</tr>
<tr>
<td>7.</td>
<td>Supplier credits/customer advances</td>
</tr>
<tr>
<td>8.</td>
<td>Other: ________________________________</td>
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<tr>
<td>9.</td>
<td>N/A</td>
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</tbody>
</table>

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62. Has any of your capital come from Vietnamese living abroad? **Interviewee**—this is meant to refer to both Vietnamese citizens living abroad and Viet kieu

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<table>
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<tbody>
<tr>
<td>0.</td>
<td>No</td>
</tr>
<tr>
<td>1.</td>
<td>Yes. From who and where? ______________________</td>
</tr>
<tr>
<td>8.</td>
<td>Other: ________________________________</td>
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63. Since start-up as an officially registered private company, have you tried to get a loan from a bank?

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<table>
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<tbody>
<tr>
<td>0.</td>
<td>No. Why not?</td>
</tr>
<tr>
<td>1.</td>
<td>Yes, but not successful. What kind of loan? ______________________</td>
</tr>
<tr>
<td>2.</td>
<td>Yes, and received a short-term loan (6 months or less) interest rate ____ term ____ Name of bank ____________</td>
</tr>
<tr>
<td>3.</td>
<td>Yes, and received a long-term loan interest rate ____ term ____ Name of bank ____________</td>
</tr>
<tr>
<td>4.</td>
<td>Yes, both long term and short term long term loan: Name of bank ________ interest rate ____ term ___ short term loan: Name of bank ________ interest rate ____ term ___</td>
</tr>
<tr>
<td>8.</td>
<td>Other: ________________________________</td>
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<tr>
<td>9.</td>
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</tbody>
</table>
64. Since start-up as an officially registered private company, how many short-term loans (less than 6 months) have you received?

<table>
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<td>Four</td>
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</tbody>
</table>

65. Do you currently need a short-term loan?

<table>
<thead>
<tr>
<th>Options</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>No, I don’t need one now</td>
<td></td>
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<td></td>
<td></td>
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<td>N/A</td>
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<tr>
<td>Yes, I need one for general working capital</td>
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<td>N/A</td>
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<tr>
<td>Yes, I need one to pay interest on my debts</td>
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<td></td>
<td></td>
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<td>N/A</td>
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<tr>
<td>Yes, I need one to purchase equipment</td>
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<td></td>
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<td>N/A</td>
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<tr>
<td>Yes, I need one for _________________________</td>
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<td>Other: ________________________________</td>
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</table>

66. If yes, in which currency would you prefer to borrow short-term?

<table>
<thead>
<tr>
<th>Options</th>
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<tbody>
<tr>
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<td></td>
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<td>A hard currency</td>
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<tr>
<td>Doesn’t matter</td>
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</table>

67. How difficult is it to get a short-term loan from a bank?

<table>
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<th>Options</th>
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<th>2</th>
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<tbody>
<tr>
<td>Very easy</td>
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<tr>
<td>Fairly easy</td>
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<td>Fairly difficult</td>
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<td>Very difficult</td>
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</table>

68. Since start-up as an officially registered private company, how many long-term loans (6 months or more) have you received from any financial institutions?

<table>
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69. Do you currently need a long-term loan?

<table>
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<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>No, I don’t need one right now</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td>Yes, I need one to improve or enlarge my production facilities</td>
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<td>N/A</td>
</tr>
<tr>
<td>Yes, I need one to buy new equipment</td>
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<td></td>
<td></td>
<td></td>
<td>N/A</td>
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<tr>
<td>Yes, I need one to increase my working capital</td>
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<td>N/A</td>
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<tr>
<td>Yes, I need one for _________________________</td>
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</table>

70. If yes, in which currency would you prefer to borrow long-term?

<table>
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71. Do you have problems getting the amount of foreign exchange you need at the time you need it?

0. No
1. Yes. What problems? ____________________
2. Don’t know: I don’t have the need
8. Other: ________________________________
9. N/A

72. How difficult is it currently to get a long-term VND loan from a bank?

0. Very easy
1. Fairly easy
2. Fairly difficult
3. Very difficult
8. Other: ________________________________
9. N/A

73. The main difficulty in getting a loan is:

0. Red tape: I don’t know anyone at the bank
1. Not enough money to be loaned
2. Size of loans available is not enough
3. Bankers prefer to make larger loans
4. Lenders prefer public sector clients
5. Lenders do not like my kind of business
6. Lenders require more collateral than I have
(Details on collateral: _____________________________)
7. Bankers unwilling to lend because of interest rate cap
8. Other: ________________________________
9. N/A

74. Would you consider selling part of your equity in order to raise capital?

0. No
1. Yes
8. Other: _____
9. N/A

**Physical Capital**

75. What is the average age of your equipment?

0. Less than one year old
1. One to three years old
2. Five to ten years old
3. 10-20 years old
4. More than 20 years old
8. Other: ________________________________
9. N/A

76. Where was most of your equipment (value, not volume) made?

0. Vietnam
1. The ASEAN countries
2. South Korea
3. Japan
4. Other East Asian country
5. Western Europe
6. North America
7. Eastern Europe and the countries of the former Soviet Union
8. Other: ________________________________ 9. N/A

77. How did you obtain the factory space (building) you now occupy?
0. Bought rights to it. What year? ______ From whom? _________
1. Inherited it
2. It belongs to a family member
3. I lease it on a monthly basis. From whom? _____________________
4. I lease it on an annual basis. From whom? _____________________
5. I lease it on a multiple-year basis. From whom? _______________
8. Other: ________________________________ 9. N/A

78. How did you obtain the land that your business sits on?
0. Bought rights to it. What year? ______ From whom? _________
1. Inherited it
2. It belongs to a family member
3. I lease it on a monthly basis. From whom? _____________________
4. I lease it on an annual basis. From whom? _____________________
5. I lease it on a multiple-year basis. From whom? _______________
8. Other: ________________________________ 9. N/A

79. Do you have full legal documentation for the land this business sits on?
0. No
1. Yes, I have full legal documentation, including “red book”
2. Yes, I have legal documentation, but not a “red book”
8. Other: ________________________________ 9. N/A

80. If you have land rights, describe the terms and length of these land rights:
// ____________________________________________________________
// ____________________________________________________________
// ____________________________________________________________

RAW MATERIALS

81. What proportion of the value of your raw materials and intermediate inputs is imported, either by yourself or by an importer? ______________ percent

82. Who is your main supplier of local raw materials?
0. An SOE
1. Another registered private company
2. An unregistered private company
3. The government
4. A cooperative
5. A foreign joint-venture
6. A 100% foreign company
8. Other: ________________________________ 9. N/A

83. Who is your main supplier of imported raw materials?
0. An SOE
1. A registered private Vietnamese retailer
2. Foreign customer(s)
3. An unregistered private company
4. A private trading agent, wholesaler
5. A government trading company
6. Purchase directly from foreign supplier
7. A foreign trading company
8. Other: ______________________________________
9. N/A

84. Can you get the quality and quantity of raw materials that you need at the time that you need them?

0. Never
1. Sometimes
2. Usually
3. Always
8. Other: ______________________________________
9. N/A

**Market and Sales**

85. Where do most of your customers come from? **Interviewer**—this refers to direct customers not final consumers of the product

0. Local
1. National
2. ASEAN: _________
3. Japan
4. Other East Asian countries: _______
5. Western Europe: _________
6. Eastern Europe and former Soviet Union:
7. North America: _________
8. Other: ____________________________
9. N/A

86. Where do most of the final consumers of your product come from?

0. Local
1. National
2. ASEAN: _________
3. Japan
4. Other East Asian Countries:_______
5. Western Europe:___________
6. Eastern Europe and former Soviet Union
7. North America
8. Other: ____________________________
9. N/A

87. Who are your main customers? **Interviewer**—this refers to the company’s customers, not final consumers of the product

0. Vietnamese individuals
1. Private Vietnamese firms
2. Vietnamese Cooperatives
3. Vietnamese SOEs
4. Central Vietnamese government agencies
5. Local/provincial Vietnamese authorities
6. Foreign individuals
7. Foreign companies (including agents)
8. Other: ______________________________________ 9. N/A

88. How many main customers do you have?

0. One 1. Two to five 2. Six to ten
3. 11-25
4. More than 25
8. Other: ______________________________________ 9. N/A

89. Is your product exported (directly by you or through traders)?

0. No
1. Yes, export directly to customers (retailers) abroad
2. Yes, export directly to foreign agent(s) who sells to customers abroad
3. Yes, export through SOE to customers abroad
4. Yes, export through a government agency to customers abroad
5. Yes, export through a private Vietnamese trading company to customers abroad
8. Other: ______________________________________ 9. N/A

Interviewer—if answer to Q89 is “No” then skip ahead to Q94

90. If so, what proportion of the value of your total production is exported? _______ percent

91. Interviewer—place above answer into the appropriate category below:

0. None 1. One to ten percent 2. 11-25 percent
3. 26-50 percent 4. 51-75 percent 5. 76-90 percent
6. 91-99 percent 7. 100 percent
8. Other: ______________________________________ 9. N/A

92.// If you are exporting, how do you decide which products to export, what quality they
// should be and what
// prices to charge? ______________________________________
// _______________________________________________________
// _______________________________________________________

93. If you are exporting, what is the main obstacle you face?

0. None 1. Special export taxes
2. Lack of knowledge about foreign markets 3. Have to pay too many bribes
4. High tariffs on imports needed to produce export-quality goods
5. Policies and regulations discriminate against my particular industry
6. Takes too long to get all the approvals needed
7. Intermediaries cut too much into profit margin
8. Other: ______________________________________ 9. N/A

94. If you are not exporting, why not? ______________________________________
   // _______________________________________________________________
   // _______________________________________________________________

**Interviewer**—if you answered Q94 then skip ahead to Q98

95. If you export, how did the share of domestic and foreign sales change with respect to one another from the beginning to the end of 1998?
   0. No change 1. Domestic sales have increased and foreign sales have decreased
   2. Domestic sales have decreased and foreign sales have increased
   8. Other: ______________________________________ 9. N/A

96. If you export to Asian countries, how did your markets change from the beginning to end of 1998?
   0. No change 1. Sales increased 2. Sales decreased
   8. Other: ______________________________________ 9. N/A

97. If you export to Western markets, how did your markets change from the beginning to end of 1998?
   0. No change 1. Sales increased 2. Sales decreased
   8. Other: ______________________________________ 9. N/A

98. Who are your firm’s main competitors? (choose only one)
   0. No competitors 1. Small private firms
   2. Large private firms 4. Cooperatives
   3. SOEs 5. Foreign-owned firms
   8. Other: ______________________________________ 9. N/A

**COMPUTERS**

99. How many computers do you have in this company? _____________

100. **Interviewer**—place the above answer to Q99 in the appropriate category below:
   0. None 1. One 2. Two 3. Three to five
   4. Six to ten 5. 11-20 6. Over 20
8. Other: ______________________________________ 9. N/A

**Interviewer**—if your answer to Q100 is “None” then skip ahead to Q107

101. What does this company use its computers for? Check all that apply

   A. Word processing   B. Accounting
   C. Budgeting/Forecasting   D. Graphic design
   E. World-wide web access   F. E-mail
   G. Inventory control   H. Other: ________________  I. N/A

102. Is your business connected to e-mail?

   0. No   1. Yes   8. Other: ________ 9. N/A

103. Is your business connected to the Internet?

   0. No   1. Yes   8. Other: ________ 9. N/A

104.// If yes, what do you use the Internet for? _____________________________
// _______________________________________________________________
// _______________________________________________________________

105. Are your computers networked (internally and across offices)?

   0. No   1. Yes. If yes, what software? ________________ 8. Other: ________________ 9. N/A

106. Do you have computers equipped with (Check all that apply):

   A. Hard drives of one gigabyte or more
   B. Hard drives with speed of 486 or above
   C. Hard drive with 133 megahertz or more   D. RAM of 16 megabytes or more
   E. CD-ROM   F. Modem
   G. Other: ______________________________________  I. N/A

**C- ENTREPRENEUR**

Interviewer—The questions in this section are all meant to refer to the head of the company

107. Where were you born?
- Hanoi
countryside
  3. Central city
  4. Central countryside
  5. Ho Chi Minh City
  6. Other southern city
  7. Southern countryside
  8. Other: ________________________________
  9. N/A

108. Age: ______

109. **Interviewer**—place the above answer to Q108 in one of the appropriate category below:
  0. less than 30 1. 30 to 34 2. 35 to 39 3. 40 to 44
  4. 45 to 49 5. 50 to 54 6. 55 to 59 7. 60 and over
  8. Other: ________________________________
  9. N/A

110. What is your ethnicity?
  0. Vietnamese 1. Chinese
  8. Other: ________________________________
  9. N/A

111. Were you the main person originally responsible for setting up this business?
  0. No 1. Yes, I was the main person
  2. Yes, I was one of the main people
  8. Other: ________________________________
  9. N/A

112. If not, what is your relationship to the person who did? __________________________

113. Were you the main person responsible for originally registering this company as a private company?
  0. No 1. Yes, I was the main person
  2. Yes, I was one of the main people
  8. Other: ________________________________
  9. N/A

114. How long have you held this position or a comparable one with this company? **Interviewer**—this could date back to before official registration
  0. Less than six months 1. Six months to one year 2. One to two year
  3. Two to three years 4. Three to four years 5. four to five years
  6. Five to six years 7. More than 6 years (specify: ________________________)
  8. Other: ________________________________
  9. N/A
115. How many other private businesses (formal or informal) do you and your close family members currently own some share of?

0. None 1. One 2. Two 3. Three 4. More than three 8. Other: ____________________________ 9. N/A

116. **Interviewer**—ask this question for interviews in the Central and South only:
How many other private businesses did you or your close family own before 1975 (either fully or partially)?

0. None 1. One 2. Two 3. Three 4. More than three 8. Other: ____________________________ 9. N/A

117. **Interviewer**—this is a follow-up question for the previous question, Q116:
What happened to your share(s) in this/these past business(es)?


118. Do you have another place of employment in addition to working with this company?

0. No 1. Yes 8. Other: _____ 9. N/A

119. If so, where else are you legally employed?


120. And if so, what is the most valuable thing provided to you by that other employment?

0. Connections that provide access to suppliers 1. Connections that provide access to buyers 2. Connections to both suppliers and buyers 3. Income security in case this company fails 4. I need the extra money 5. Employment benefits, such as pension, social security, etc. 6. Capital for this business (Explain: ____________________________ ) 7. Political connections 8. Other: ____________________________ 9. N/A
121. Does anyone else (other than yourself) in your family currently work in the private sector?

0. No 1. Yes 8. Other: _____ 9. N/A

122. If so, who, and in what capacity?

// _______________________________________________________________
// _______________________________________________________________
// _______________________________________________________________
// _______________________________________________________________
// _______________________________________________________________

EDUCATION AND TRAINING

123. What is the highest level of education you have completed?

0. Less than 12 years (specify number of years: _____________)
1. High school diploma
2. Training or Associates degree
3. Bachelor’s degree
4. Soviet-style Masters (pho tien si)
5. Western-style Masters (thac si)
6. Doctorate
8. Other: ______________________________________ 9. N/A

What did you study? ______________________________________________________

124. So, how many years of additional school did you complete after graduating high school (12 years)?

0. None 1. One 2. Two 3. Three
7. Seven or more (specify: _______)
8. Other: __________________________________________________________________ 9. N/A

125. Have you had the opportunity to go abroad for study or training?

0. No 1. Yes 8. Other: _____ 9. N/A

Interviewer—if the answer to Q125 is “No” then skip ahead to Q133

126. If so, how many times?

0. One 1. Two 2. Three 3. Four
4. Five 5. Six or more (specify: ________________)
8. Other: __________________________________________________________________ 9. N/A

127. How many of these times occurred before 1991?

0. None 1. One 2. Two 3. Three
4. Four 5. Five
6. Six or more (specify: ________________ )  
8. Other: ________________  
9. N/A

128. **Interviewer**—ask only of interviewees in the Central and South: How many of these times occurred before 1975?


129. If you went abroad, how many months total were you abroad for study or training?  
______________ months

130. **Interviewer**—place above answer into appropriate category below:

0. Less than three months 1. Three months or more, but less than one year (specify: _____________ ) 2. One year 3. Two years 4. Three years 5. Four to five years 6. Six to nine years 7. 10 or more years 8. Other: ________________ 9. N/A

131. If you went abroad, what was your field of study or training?


Specify: ______________________________________________________

132. If you went abroad, where did you do most of your foreign study or training?

0. China 1. The Soviet Union (or former USSR) 2. Eastern Europe (excluding countries formerly belonging to the USSR) 3. Other communist country (specify: ________________ ) 4. Australia 5. Western Europe 6. The United States 7. Southeast Asia 8. Other: ________________ 9. N/A

**Employment History**

133.// What was your main occupation for most of the years before you started this company? ________________

// ________________

// ________________
134. Where did you work for most of the years before you started this company?

0. An SOE  
1. A central government ministry  
2. Local government  
3. A cooperative  
4. Informal private manufacturing sector  
5. Informal private service sector  
6. Another private company  
7. Nowhere; this is my first job  
8. Other: ________________________________  
9. N/A  

Specify: ________________________________

135. What was the highest position you attained in the above job?

// ________________________________

// ________________________________

136. Have you ever worked for an SOE?

0. No  
1. Yes, but I don’t now  
2. Yes, and I still do  
8. Other: ________________________________  
9. N/A

137. If so, for how long?

0. Less than one year  
1. One year  
2. Two years  
3. Three to five years  
4. Six to ten years  
5. 10 years or more (specify: _______ )  
8. Other: ________________________________  
9. N/A

138. Have you ever worked for the government (excluding military)?

0. No  
1. Yes, but I don’t now  
2. Yes, and I still do  
8. Other: ________________________________  
9. N/A

139. If so, from when to when? ________________________________

140. Interviewer—How long? Calculate and place answer into appropriate category below:

0. Less than one year  
1. One year  
2. Two years  
3. Three to five years  
4. Six to ten years  
5. 11 years or more (specify: _____ )  
8. Other: ________________________________  
9. N/A

141. If so, did you work for the central government or for local government?
142. Have you ever worked for the military?

| 0. No | 1. Yes | 2. Yes, and I still do | 8. Other: ____________________ | 9. N/A |

143. If so, from when to when? ____________________________

144. **Interviewer**—How long? Calculate and place answer in appropriate category below:

| 0. Less than one year | 1. One year | 2. Two years | 3. Three to five years | 4. Six to ten years | 5. 11 years or more (specify: _____) | 8. Other: ____________________ | 9. N/A |

145. Are you a Vietnamese Communist Party member?

| 0. No | 1. Yes | 8. Other: ____________________ | 9. N/A |

146. If yes, then for how many years? ____________

147. **Interviewer**—place above answer in appropriate category below:

| 0. Less than one year | 1. One year | 2. Two years | 3. Three to five years | 4. Six to ten years | 5. 11 to 15 years | 6. 16 to 20 years | 7. 21 years or more | 8. Other: ____________________ | 9. N/A |

148. Is anyone (other than yourself) in your family currently a member of the Vietnamese Communist Party? (**Interviewer**—family is meant to extend to include grandparents, uncles and aunts)

| 0. No | 1. Yes | 8. Other: ____________________ | 9. N/A |

149. Have you ever worked abroad? **Interviewer**—this is not intended to include business trips, but instead refers to being stationed abroad with a job

| 0. No | 1. Yes | 8. Other: ____________________ | 9. N/A |

**Interviewer**—if your answer to Q149 was “No” then skip ahead to Q161

150. If so, how many times have you gone abroad and worked?
0. One 1. Two 2. Three
3. More than three
8. Other: ________________________________ 9. N/A

151. How many of those times came before 1991?

0. None 1. One 2. Two 3. Three
4. More than three
8. Other: ________________________________ 9. N/A

152. Interviewer—only ask of interviewees in the Central and South:
How many of those times came before 1975?

0. None 1. One 2. Two 3. Three
4. More than three
8. Other: ________________________________ 9. N/A

153. If you went abroad for work, how many months total have you worked abroad?

____________________

154. Interviewer—place above answer into appropriate category below:

0. Less than three months
1. Three months or more, but less than one year (specify: ____________ )
2. One year 3. Two years 4. Three years
5. Four to five years 6. Six to nine years 7. 10 or more years
8. Other: ________________________________ 9. N/A

155. If you went abroad for work, how many of those months came before 1991?

____________________

156. Interviewer—place above answer into appropriate category below:

0. None 1. Less than three months
2. Three months or more, but less than one year (specify: ____________ )
3. One year 4. Two to three years 5. Four to five years
6. Six to nine years 7. 10 or more years
8. Other: ________________________________ 9. N/A

157. Interviewer—ask only of interviewees in the Central and South:
If you went abroad for work, how many of those months came before 1975?

____________________

158. Interviewer—place above answer into appropriate category below:
114

159. If you went abroad for work, where did you work (Interviewer—if more than once, where did they work the longest)?

0. China 1. The former Soviet Union
2. Eastern Europe (excluding countries formerly belong to the USSR)
3. Other communist country (specify: ___________________________ )
4. Southeast Asia 5. The Middle East
6. South Korea 7. Africa
8. Other: ______________________________________ 9. N/A

160. What was your longest-lasting job while you were abroad?
________________________________________________________________________

161. Have you traveled abroad for any other reasons?

0. No 1. Yes, for business only
2. Yes, for official government duties only
3. Yes, for personal tourism purposes only
4. Yes, for business and for official government duties
5. Yes, for business and for personal tourism purposes
6. Yes, for official government duties and for personal tourism purposes
7. Yes, for all three reasons
8. Other: ____________________________ 9. N/A

Interviewer—if the answer to Q161 was “No” then skip ahead to Q165

162. If so, how many times?

0. One 1. Two 2. Three 3. Four
7. Nine or more times (specify: _______ )
8. Other: ____________________________ 9. N/A

163. If you went abroad for one of the reasons in Q161, How many of these times occurred before 1991?

0. None 1. One 2. Two 3. Three
4. More than three
8. Other: ____________________________ 9. N/A

164. Interviewer—only ask of interviewees in the Central and South:
If you went abroad for one of the reasons in Q161, how many of those times came before 1975?


Family Background

165. What was/is your father’s main occupation? __________________________

________________________________________________________________________

166. **Interviewer**—place the answer to Q165 in appropriate category below:

0. Professional, technical expertise (for ex. engineer, chemist, doctor)
1. Management
2. Clerical, sales, services
3. Agriculture, animal husbandry, forestry, fisherman, hunter
4. Manual worker (manufacturing, construction, transport, etc.)
5. Did not work outside of home
8. Other: __________________________ 9. N/A

167. Who is/was your father’s main employer?

0. The SRV and/or DRV government 1. The Vietnamese Communist Party
2. The SRV or DRV army
3. The public sector: SOE or cooperative
4. The private sector: private company or self-employed
5. A foreign company
6. The old Republic of Vietnam regime in the South
7. The Republic of Vietnam army in the South
8. Other: __________________________ 9. N/A

168. What was/is your mother’s occupation? __________________________

________________________________________________________________________

169. **Interviewer**—place the above answer to Q168 in appropriate category below:

0. Professional, technical expertise (for ex. engineer, chemist, doctor)
1. Management 2. Clerical, sales, services
3. Agriculture, animal husbandry, forestry, fisherman, hunter
4. Manual worker (manufacturing, construction, transport, etc.)
5. Did not work outside of home
8. Other: __________________________ 9. N/A

170. Who is/was your mother’s main employer?
0. The SRV and/or DRV government
1. The Vietnamese Communist Party
2. The SRV and/or DRV army
3. The public sector: SOE or cooperative
4. The private sector: private company or self-employed
5. A foreign company
6. The old Republic of Vietnam regime in the South
7. The Republic of Vietnam army in the South
8. Other: ________________________________ 9. N/A

171. Are you married?

0. No 1. Yes 8. Other: ________________________________ 9. N/A

172. If yes, what is your spouse’s occupation? ________________________________

173. Interviewer—place above answer to Q172 in appropriate category below:

0. Professional, technical expertise (e.g., engineer, chemist, doctor)
1. Management
2. Clerical, sales, services
3. Agriculture, animal husbandry, forestry, fisherman, hunter
4. Manual worker (manufacturing, construction, transport, etc.)
5. Does not work outside of home
8. Other: ________________________________ 9. N/A

174. If yes, who is your spouse’s employer?

0. The government
1. The Vietnamese Communist Party
2. The army
3. The public sector: SOE or cooperative
4. The private sector: private company or self-employed
5. A foreign company
6. Housewife
7. Works with this company
8. Other: ________________________________ 9. N/A

D. THE MOVE INTO THE PRIVATE SECTOR

175. What is the primary reason why you started up this business? (pulled to it by prospects or pushed to it by problems elsewhere)

0. Lost job, was laid off, or expected to be laid off
1. Frustrated by work in SOE—foresaw unsatisfying future there
2. Few job opportunities elsewhere—private sector was only option
3. Previous salary was too low—anticipated greater income in the private sector
4. Saw a profitable opportunity and took it
5. Wanted to put training to use
6. Legal environment for private enterprise changed
7. Parents/relatives were in private business
8. Other: ______________________________________ 9. N/A

176. Are you producing the same product in your current business that was produced in the places that you have worked before?
   0. The same 1. Very similar
   2. Related but different 3. Completely different
   8. Other: _______________________________ 9. N/A

177. What was the main reason behind this company’s choice of product?
   0. Previous experience with the production of the product
   1. Local tradition of producing the product
   2. Family tradition of producing the product
   3. Imitating success of others in producing the product
   4. Secure supply of inputs for production of the product
   5. Friends advice 6. Local authorities advice
   8. Other: _______________________________ 9. N/A

178. What was your own main personal experience with this company’s main product before starting up this company?
   0. I had no previous direct exposure to the same or any similar product
   1. I personally bought and/or used the same or a similar product
   2. I personally informally traded the same or a similar product
   3. I worked for another company that produced the same or a similar product
   4. I worked for another company that traded the same or a similar product
   5. I worked for another company that purchased the same or a similar product
   6. I worked for a government agency that purchased the same or a similar product
   8. Other: _______________________________ 9. N/A

179. What do you think is the main source of the primary skills/knowledge you use to operate this business?
   0. University/technical education 1. Experience in past jobs
   2. Supplier of your equipment 3. Buyer of your final product
   4. Trade/technical journals 5. Learning on your own
   6. Foreign contacts
   7. Training programs outside the education system
   8. Other: _______________________________ 9. N/A

180. What were your primary personal goals in starting up this business? (Interviewer—let the interviewee answer in their own words and then choose the one that best matches the interviewee’s answer)
   0. Achievement—wanted to use skills you have
   1. Status/prestige—wanted to move up in the world
   2. Independence—wanted to work on your own
3. Power—wanted to be in charge
4. Money—wanted to earn more money than you had been earning
5. Economic necessity—had few other choices
6. Career security—this route offered the best future
8. Other: ______________________________________ 9. N/A

181. Which one of these descriptions best fits you? (Interviewer—read the interviewee the list: they can choose up to three)

A. A high achiever, easily bored with the routine, restless
B. A practical person with practical skills
C. Highly disciplined, committed to hard work
D. A risk taker, willing to live with uncertainty
E. Like to feel in control of what is going on
F. Self-confident, fairly sure of success
G. Independent, a loner, somewhat separate from others
H. Grew up in a difficult, troubled family
I. Other: ______________________________________ J. N/A

182. If you had the opportunity to start over, would you choose this business again?

0. No, I would not start this or any other private business if I had a chance to choose again
1. No, but I would choose to start a business in a different industry.
   Which industry? ________________________________________________
2. Yes, I would start this business again if given a chance to choose again
8. Other: ______________________________________ 9. N/A

183. Would you encourage your child to go into the private sector?

0. No 1. Yes 2. Yes, but they should work in the state sector or government first
8. Other: ______________________________________ 9. N/A

// Explain: ______________________________________________________
// _______________________________________________________________

E. TRENDS IN YOUR COMPANY

184. Approximately what was the total sales revenue of your business in 1998?
   Interviewer—convert all answers to VND _________________________ VND

185. Of total sales revenue for 1998, what percentage was in VND? ____________ percent

186. Interviewer—place above answer to Q185 in appropriate category below:

0. None 1. One to ten percent 2. 11-25 percent
187. What percentage of your total sales revenues in 1999 do you expect will be in VND? __________ percent

188. Interviewer—place above answer to Q187 in appropriate category below:

<table>
<thead>
<tr>
<th>0. None</th>
<th>1. One to ten percent</th>
<th>2. 11-25 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. 26-50 percent</td>
<td>4. 51-75 percent</td>
<td>5. 75-90 percent</td>
</tr>
<tr>
<td>6. 91-99 percent</td>
<td>7. 100 percent</td>
<td></td>
</tr>
<tr>
<td>8. Other:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>9. N/A</td>
</tr>
</tbody>
</table>

189. Comparing the first months of 1998 with the last months of 1998, did sales volume:

<table>
<thead>
<tr>
<th>0. Stay about the same?</th>
<th>1. Increase a lot?</th>
<th>2. Increase a little?</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Decrease a lot?</td>
<td>4. Decrease a little?</td>
<td></td>
</tr>
<tr>
<td>8. Other:</td>
<td></td>
<td>9. N/A</td>
</tr>
</tbody>
</table>

190. Comparing the first months of 1998 with the last months of 1998, did sales revenues:

<table>
<thead>
<tr>
<th>0. Stay about the same?</th>
<th>1. Increase a lot?</th>
<th>2. Increase a little?</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Decrease a lot?</td>
<td>4. Decrease a little?</td>
<td></td>
</tr>
<tr>
<td>8. Other:</td>
<td></td>
<td>9. N/A</td>
</tr>
</tbody>
</table>

191. Is the business currently making profits? (i.e. is owner getting any income out of it?)

<table>
<thead>
<tr>
<th>0. No</th>
<th>1. Yes</th>
<th>8. Other:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>9. N/A</td>
</tr>
</tbody>
</table>

192. Is the business now more or less profitable than it was at the beginning of 1998?

<table>
<thead>
<tr>
<th>0. About the same</th>
<th>1. More profitable</th>
<th>2. Less profitable</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Other:</td>
<td></td>
<td>9. N/A</td>
</tr>
</tbody>
</table>

// Why? ____________________________________________________________

193. Did you have to lower your prices on your main products during 1998?

<table>
<thead>
<tr>
<th>0. No</th>
<th>1. Yes</th>
<th>8. Other:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>9. N/A</td>
</tr>
</tbody>
</table>

194.// If so, why? _________________________________________________

// _____________________________________________________________

195. By what percentage did you lower your prices in 1998? ___________ percent
196. **Interviewer**—place above answer to Q195 in the appropriate category below:

0. None 1. One to ten percent 2. 11-25 percent
3. 26-50 percent 4. 51-75 percent 5. 75-90 percent
6. 91-99 percent 7. 100 percent 8. Other: ________________________________ 9. N/A

197. What is your projected growth in sales *value* for the next year?

0. No change 1. Increase, by _____ percent
2. Decrease, by ____ percent 3. It depends; can’t predict
8. Other: ________________________________ 9. N/A

198. What is your projected growth in sales *volume* for the next year?

0. No change 1. Increase, by _____ percent
2. Decrease, by ____ percent 3. It depends; can’t predict
8. Other: ________________________________ 9. N/A

199. Do you plan to make a major investment in equipment or buildings during 1999?

0. No 1. Yes 2. Not sure, it depends
8. Other: ________________________________ 9. N/A

F. **REGULATORY FRAMEWORK AND POLICY**

200. What kinds of registration, licenses, permits does this firm have? What office does each come from?

<table>
<thead>
<tr>
<th>Permits, licenses</th>
<th>Issuing agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>//</td>
<td></td>
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<tr>
<td>//</td>
<td></td>
</tr>
</tbody>
</table>
201. How long did it take you to get all of the licenses and permits that you needed to be fully legal in starting up your business?

0. Same day
1. Less than a month
2. One to three months
3. Three to six months
4. More than six months
5. Other: ____________________________
6. N/A

202. Did you have trouble obtaining any of the licenses and permits that you have?

0. No
1. Yes
2. Other: ____________________________
3. N/A

203. If so, what kinds of problems and with which licenses and permits (be specific)?

// ____________________________
// ____________________________
// ____________________________
// ____________________________

204. How many times is your company visited by government officials in an average month (for any reason)?

0. None
1. One
2. Two
3. Three to five
4. Six to nine
5. 10-14
6. 15-19
7. 20 or more
8. Other: ____________________________
9. N/A

205. How much money do you spend a year on unofficial payments to government officials?

________________________

206. What are the major problems facing someone trying to start a new business today in Vietnam?

// ____________________________
// ____________________________
// ____________________________
// ____________________________

207. Will equitization of significant numbers of SOEs have a positive or a negative effect on this company?

0. Significant positive effect
1. Somewhat positive effect
2. No effect
3. Somewhat negative effect
4. Significant negative effect
5. Other: ____________________________
6. N/A
208. How would you rate the attitude of *central* government officials toward private business and profit-making?

0. Neutral 1. Negative 2. Very negative
3. Positive 4. Very positive 9. N/A
8. Other: ________________________________

209. How would you rate the attitude of *local* government officials toward private business and profit-making?

0. Neutral 1. Negative 2. Very negative
3. Positive 4. Very positive 9. N/A
8. Other: ________________________________

210. How would you rate the attitudes of managers of state firms toward private business and profit-making?

0. Neutral 1. Negative 2. Very negative
3. Positive 4. Very positive 9. N/A
8. Other: ________________________________

211. How would you rate the average Vietnamese citizen’s attitude toward private business and profit-making?

0. Neutral 1. Negative 2. Very negative
3. Positive 4. Very positive 9. N/A
8. Other: ________________________________

212. In your opinion, what should the government do to make it easier for you or someone who is starting a new business (include policies and special programs)?

// Explain: ________________________________________________________
// _______________________________________________________________
// _______________________________________________________________
// _______________________________________________________________

122
In your view, what is the future of the private sector in Vietnam?
PRIVATE SECTOR DISCUSSIONS SERIES


PSD No. 2: A Survey of Medium and Large Private Companies in Lao PDR. March 1998

PSD No. 3: PSD No. 3: Equitization of State Enterprises in Vietnam: Experience to Date. March 1998


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