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TOP200

Industrial Strategies of Viet Nam's Largest Firms

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Scott Cheshier and Jago Penrose

Foreword

Viet Nam's largest enterprises are still small in comparison to big firms in other countries. Yet the fate of the economy is closely tied to the ability of these firms to survive and grow. They account for a substantial share of total employment, assets, turnover and tax in Viet Nam.

During the *doi moi* period, Viet Nam's large firms have had to learn to adopt to a more competitive domestic and international environment, and at the same time to adjust to changes in policy and the regulatory framework.

This UNDP Policy Dialogue Paper reports results from a survey of Viet Nam's largest firms. We set out to learn more about the strategies that big Vietnamese companies have devised to succeed in national and international markets.

We found that many large firms have taken on the challenge of the market, moving into more complex and higher quality products, attacking new markets, establishing brands and expanding distribution channels. But there are risks as well. Some companies rely heavily on profits from speculation in land and stock markets to generate profits. Adopting new technologies has proven to be a costly and risky process. Skill shortages emerged as a major constraint, even among large firms.

Like the other papers in this series, this UNDP Policy Dialogue Paper seeks to contribute to key policy debates in Viet Nam through close observation and analysis of Viet Nam's development situation. Our aim is simply to encourage informed discussion and debate through the presentation of information and evidence collected and presented in an accessible and objective manner.

While the views expressed in the paper do not necessarily reflect the official view of UNDP, this paper forms part of our objective of stimulating policy debate in Viet Nam on development issues. I would like to take this opportunity to congratulate the research team on this careful and thought-provoking Policy Dialogue Paper, and to thank the firms involved for their willingness to share information and views with us.

Setsuko Yamazaki

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UNDP Country Director

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The authors are solely responsible for remaining errors of fact or omission. While this is a UNDP Policy Dialogue Paper, the views expressed here are the authors' alone and do not necessarily reflect the views of the United Nations or the countries it represents.

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Acronyms

Note: a list of firm names and acronyms is provided in Annex 2.

BoM	Board of Management
DWT	Dead Weight Tonne
GC	General Corporation
GSO	General Statistics Office
HCMC	Ho Chi Minh City
ISIC	International Standard Industrial Classification
IZ	Industrial Zone
JSC	Joint Stock Company
JV	Joint Venture
MFA	Multi-Fibre Agreement
MoA	Ministry of Agriculture
MoD	Ministry of Defence
MoFD	Ministry of Food
MoI	Ministry of Industry
NIC	Newly Industrialised Country
SCIC	State Capital Investment Corporation
SME	Small and Medium Sized Enterprise
SOCB	State Owned Commercial Bank
SOE	State Owned Enterprise
VSIC	Viet Nam Standard Industrial Classification
WTO	World Trade Organisation

Executive Summary

Viet Nam's largest firms are big compared to other firms in Viet Nam but in global terms are more like small and medium sized enterprises. Nevertheless, the Top 200 firms account for sizeable shares of labour, assets, turnover and tax across ownership categories (state, private, foreign) and sectors. In some cases, the largest firms *are* the sector. Within the Top 200, almost half of the largest manufacturing firms are 100 percent foreign owned.

The collapse of the Soviet Union forced Vietnamese firms to find new markets and produce new goods and services. Greater freedom to trade made it possible for them to expand and grow. Over half of Viet Nam's largest firms are members of General Corporations. Most member companies did not experience high levels of oversight and control and conducted activities in the 1990s with increasing autonomy. However, they were at times called upon to perform 'socially responsible' acts such as rescuing loss making member companies to protect jobs.

State enterprise reform is changing this. The barriers between state corporations are breaking down and competition is increasing between them. As they equitise member companies some corporations are losing formal control, calling into the question the meaning of the term 'corporation' in Viet Nam. As they transform into parent-child corporations and economic groups, many are moving into real estate, tourism, securities trading and establishing their own insurance companies and banks.

Given this context, Viet Nam's largest firms have shown a capacity to respond to increased competition. They are moving into more complex and higher quality products, diversifying into related products and entering new business lines. They are establishing brands, expanding distribution channels and entering new markets.

Large firms are also making decisions about their future. Some of Viet Nam's largest firms are investing to extract more value from existing business activities. Some are directing investment into unproductive but (at present) highly profitable areas. Many firms are choosing a combination of both. The enthusiasm for investment in real estate and equities must be viewed within the broader economic context in which alternatives are risky and often difficult. If core business lines are not very profitable, then leveraging speculative profits to finance core business expansion and upgrading can be a viable strategy.

However, reliance on speculative investments as the primary source of profits is risky.

Product upgrading is not the preserve of firms in more obviously 'high-tech' industries. Several firms interviewed in garments, textiles and seafood were investing to capture more value in their existing sectors. For these firms profits can be found in the development of skills and technologies. However, the process can be as risky as investments in over-valued land and securities. Technology is expensive and difficult to acquire, workers need to be trained and markets understood. Often the alternative is to build hotels, apartment blocks and industrial zones and to establish a subsidiary to trade equities.

The government can encourage firms to invest in core business areas by discouraging speculative investments in real estate and financial markets. In addition, the government can assist firms in the acquisition of skilled labour by improving the quality of universities and vocational schools. These two policy areas emerged as key issues from our interviews. Addressing them will facilitate the growth and development of Viet Nam's largest firms and the continued growth of the economy.

Introduction

Improving productivity and increasing the efficiency of large domestic firms are the key to Viet Nam's economic competitiveness. Large firms and business groups have played a leading role in the growth of early developers and newly industrialised countries (NICs), notably Japan, South Korea, Taiwan and Thailand. Large firms are better able to achieve economies of scale and scope that contribute to international competitiveness. They also invest in the acquisition and development of technologies and products and therefore pioneer entry into higher value-added activities. Large firms' requirements for infrastructure, capital and skilled labour have significant and often positive spillover effects for the rest of the economy.[1] Only with growing, competitive, large Vietnamese firms will the country achieve the status of an industrialised nation by the year 2020.

Large firms in Viet Nam are facing substantial competition during the transition to an open market economy. To thrive in the competitive global business environment of the twenty-first century they must make critical strategic choices. However, at present there is little research on Viet Nam's largest firms.[2] Research on firms in Viet Nam has focused on small and medium sized enterprises (SMEs) and their contribution to private sector development and job creation. Although few would argue with the proposition that small businesses contribute to development, the fascination with small firms in Viet Nam neglects the historical importance of big business to development and economic growth in every country in the world that has succeeded in achieving and sustaining high income country status.

The objective of our research is to understand how Vietnamese firms and business groups are adapting to Viet Nam's changing business environment. We have sought to identify Viet Nam's large firms, where they come from, the growth strategies they have adopted and the constraints that they face. Firms were sent questionnaires beginning in August 2006 and interviews with sixty-two selected

[1] For a discussion of the importance of large domestic firms, see Amsden (2004).
[2] Webster and Taussig (1999) and Packard (2004) are the exceptions.

companies, primarily in the manufacturing sector, were conducted from November 2006 to May 2007.[3]

Our interviews took us across the country to smoke-filled meeting rooms where we were shown promotional videos on company history, new products, and mock-ups of pending real estate investments. We were educated on the impact of fuel costs in determining the choice of technology in a run down building in a major urban city centre. In a shiny new office tower sporting an immaculate, contemporary interior we were surprised to discover a firm that was entirely unaware that major domestic players were moving into their core business areas. We were tutored in the details of financial engineering in the new era of domestic stocks and bonds by a fiery, female chief accountant who had been with the company for thirty years. We visited processing factories sorting shrimp for multiple overseas markets and garments workshops packaging and labeling products for major US department stores.

The next section presents a general description of Viet Nam's largest firms and briefly recounts key events in their development through the 1980s and 1990s. The section ends with a discussion of the General Corporation (GC) model, which has had a major impact on the trajectory of large firm development in Viet Nam. We discuss the nature of GC reform and possible outcomes of this process, stressing the diversity of Viet Nam's GCs. Some GCs remain powerful and relevant to their member firms, while others have carved out greater space for autonomous decision making.

Section 2 presents results from firm interviews, and describes how large Vietnamese firms are responding to increased competition in domestic and international markets. It outlines the strategies of Viet Nam's largest firms. Some businesses are moving into more complex and higher value products in order to survive. However, some firms are also increasingly engaged in speculative investments in real estate and securities. High returns from speculation have drawn some of these companies away from their core businesses, while others are pursuing both strategies simultaneously.

Section 3 describes how firms opting to invest in upgrading core businesses go about financing and finding the technology and capital equipment that they need. It also addresses the importance of skills and training in carrying out this process.

Section 4 draws some policy implications from these findings, discussing potential tools to reduce the attractiveness of speculation and the risks of investing in new products, processes and technologies. The section also discusses policy options to assist firms in the acquisition of technology and much needed skilled labour. The final section concludes.

[3] This figure only covers companies in the largest firms list. A total of 88 interviews were conducted with firms, general corporation head offices and industry associations. For those interested in the details of the methodology used to identify the largest firms, an independent annex is available at the UNDP website www.undp.org.vn.

1 Viet Nam's **Largest Firms**

Understanding the context in which Viet Nam's largest firms operate helps to explain the strategies they adopt. This section provides that context. It begins with a comparison of the largest firms with the remaining firms in Viet Nam and then reviews relevant history and recent reforms as a backdrop for the main findings on firm strategies and constraints presented in sections 2 and 3.

1.1 Overview

Viet Nam's largest firms are big compared to other firms in Viet Nam but in global terms they are more akin to small and medium sized enterprises. This very much depends on the definition of the firm, particularly with regard to General Corporations in Viet Nam. For the most part, the General Statistics Office (GSO) enterprise survey does not count a GC as a firm, and instead only counts independent units. This paper follows the same standard.[4] Among all ownership types (state, private and foreign) and across the full range of sectors, the Top 200 firms account for a sizeable share of total labour, assets, turnover and taxes paid. In some cases, the largest firms *are* the sector.

Box 1: How Big is Big?

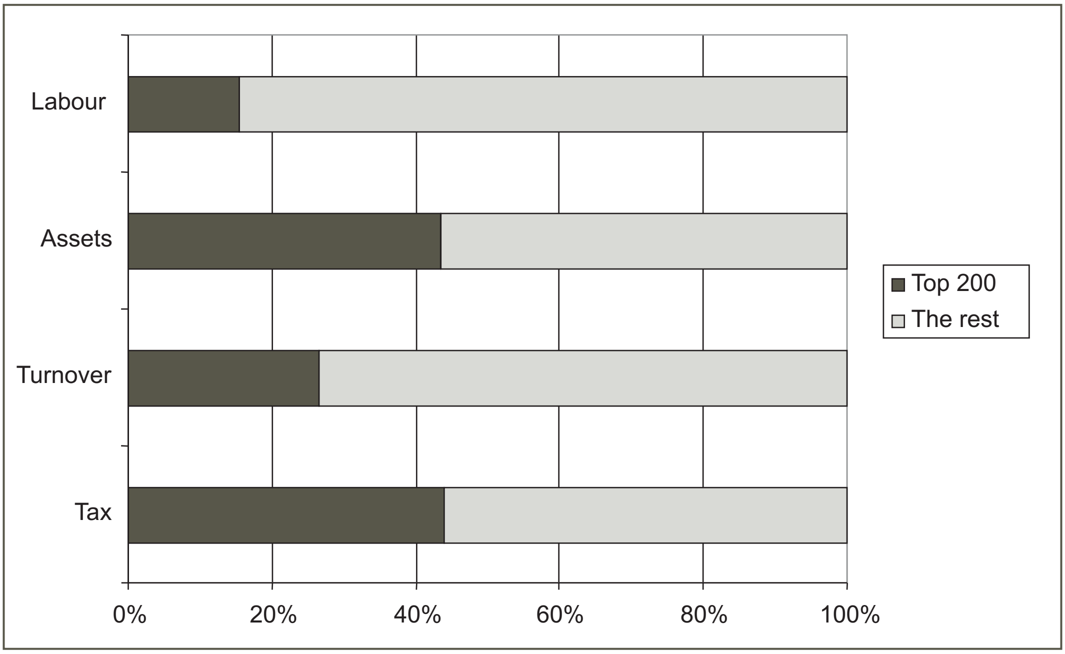
We compare the 200 largest enterprises in Viet Nam to other Vietnamese firms. However, these companies are not giants of global business. The firm with the smallest number of workers in the Top 200 employs 767 people and only 672 in the Domestic Top 200. One component of the international definition of a small and medium sized enterprise is a company with 300 workers or less. The fifteen smallest firms in terms of labour in the Top 200 each have less than one thousand employees, 146 firms have less than five thousand employees and only 93 have more than three thousand. Within the Top 200, the largest thirty firms account for nearly forty percent of labour, nearly two-thirds of assets, over 45 percent of turnover and over two-thirds of tax of the 200 largest firms.

Box 2: Map Where are Viet Nam's Largest Firms?

In 2005, 112,947 firms were included in the enterprise survey. While accounting for a modest 15 percent of total labour, the Top 200 firms account for over forty percent of assets, over one-quarter of turnover and almost forty-five percent of taxes paid. For taxes and assets, a few very large firms account for the bulk of the Top 200's contribution to total taxes and assets recorded in the enterprise survey.

[4] Methodology and rationale for identifying the largest firms are available at the UNDP website www.undp.org.vn.

Figure 1: Top 200 share of Enterprise Survey



Box 3: One Firm to Lead them All, For Now Vietsovpetro

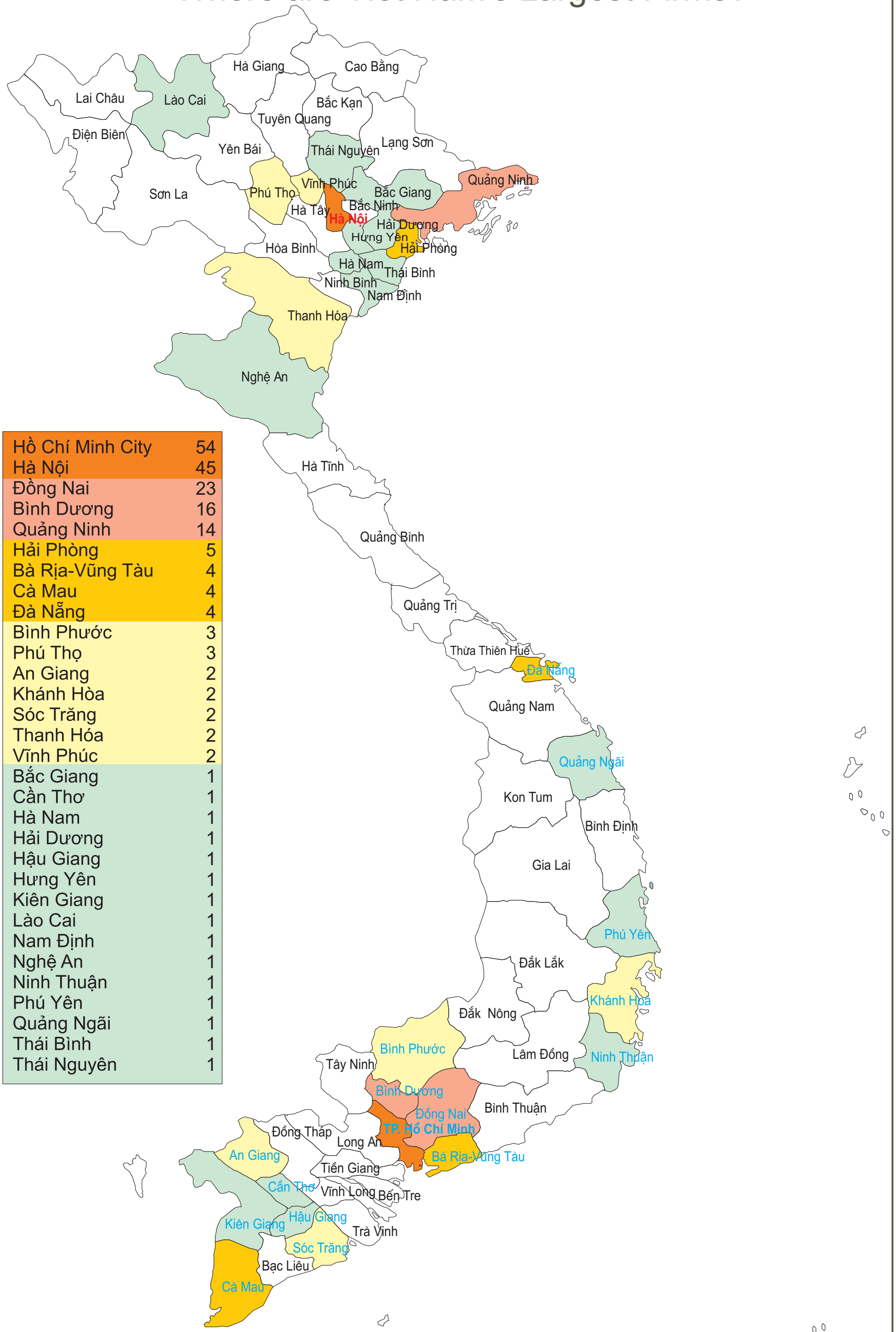
Vietsovpetro is ranked fifth in the Top 200. It alone accounted for fifteen percent of total government tax revenues in 2005. It accounts for one-fifth of taxes paid as recorded in the enterprise survey. Vietsovpetro is also ranked first in terms of turnover, accounting for three percent of total turnover in the enterprise survey.

Established in 1981 as a joint venture with Zarubezhneft of Russia, it began producing oil in 1986. It is a member company of the Viet Nam Oil and Gas Group (PetroVietnam), operating the White Tiger (Bach Ho), Rong (Dragon) and Big Bear (Dai Hung) fields. In 1995 Vietsovpetro brought onshore associated natural gas from White Tiger, contributing to the development of the gas industry in Viet Nam. It dominates crude oil production, with the low estimates of Vietsovpetro output at around two-thirds of total production in Viet Nam, nearly all of which is from White Tiger (USCS 2004).

The joint venture expires in 2011 and it is not clear that it will be renewed (Blagov 2006). Even if taken over by PetroVietnam, White Tiger output is declining. Estimates on the remaining life of White Tiger range from three to thirteen years. Other existing fields are much smaller. Some of the decline in output from White Tiger will be met by future domestic sources and also imported crude from the Middle East. However, the word has gone out that Vietsovpetro is on the wane. It is losing staff and having difficulty replacing them, with Vietnamese and Russian workers and engineers leaving the company for more secure employment.

This is occurring at a time when Viet Nam continues to experience reductions in trade related taxes due to implementation of World Trade Organisation (WTO) commitments. Can fifteen percent of government revenues remain dependent on an uncertain joint venture whose primary field is in decline and cannot retain its staff?

Where are Viet Nam's Largest Firms?



Hồ Chí Minh City	54
Hà Nội	45
Đồng Nai	23
Bình Dương	16
Quảng Ninh	14
Hải Phòng	5
Bà Rịa-Vũng Tàu	4
Cà Mau	4
Đà Nẵng	4
Bình Phước	3
Phú Thọ	3
An Giang	2
Khánh Hòa	2
Sóc Trăng	2
Thanh Hóa	2
Vĩnh Phúc	2
Bắc Giang	1
Cần Thơ	1
Hà Nam	1
Hải Dương	1
Hậu Giang	1
Hưng Yên	1
Kiên Giang	1
Lào Cai	1
Nam Định	1
Nghệ An	1
Ninh Thuận	1
Phú Yên	1
Quảng Ngãi	1
Thái Bình	1
Thái Nguyên	1

The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations or UNDP concerning the legal status of any country, territory, city or area or its authorities, or concerning the delimitation of its frontiers or boundaries.

Two lists of firms were generated: the Top 200 and the Domestic Top 200. The domestic list is based on the Top 200 but excludes 100 percent foreign owned firms in order to focus on Vietnamese companies.[6] The Top 200 are predominately state and foreign firms. The Domestic Top 200 are mostly state firms. State firms in the Top 200 account for nearly thirty percent of workers employed by state firms in the enterprise survey. Put another way, three percent of state firms account for almost 30 percent of employment, nearly two-thirds of assets, over forty percent of turnover and over forty percent of taxes paid by state firms in the enterprise survey. The situation is similar for foreign firms. The domestic private sector is not well represented in either Top 200 list, although the twenty-two largest private firms account for nearly fifteen percent of total private sector assets, mostly held by private banks.

In the manufacturing sector, the largest 110 manufacturing firms account for over fifteen percent of employment, almost one-quarter of assets, over one-quarter of turnover and nearly thirty percent of taxes paid by the 23,469 manufacturing firms included in the enterprise survey. Within the Top 200, they account for one-half of the employees and over one-third of turnover. Fifteen footwear firms account for over forty percent of employment. Over sixty percent of the Top 200 manufacturing workers are employed in forty-two footwear, textile, garment and seafood processing companies. Eight manufacturing companies in tobacco products, beer and malt, motor vehicles and motorcycles account for sixty-fve percent of the Top 200 manufacturing sector taxes paid.

Box 4: Four State Banks

Four state owned commercial banks (SOCBs) in the Top 200 are:

- Bank for Agriculture and Rural Development (Agribank)
- Bank for Investment and Development (BIDV)
- Bank for Foreign Trade (Vietcombank)
- Industrial and Commercial Bank (Incombank)

They are ranked first through fourth in terms of assets and account for one-fifth of total assets in the enterprise survey.

Table 1: Top 200 share of Enterprise Survey Ownership Types

Enterprise Survey # Firms	Top 200		Share of Enterprise Survey Ownership Type			
	# Firms	Ownership Type	Labour	Assets	Turnover	Tax
4,083	122	state	29.6%	65.5%	41.9%	41.5%
105,167	22	private	1.9%	13.7%	4.8%	4.6%
3,697	56	foreign	15.9%	10.1%	24.3%	67.8%

[6] Annex 1 provides the Top 200 list. Annex 2 provides the Domestic Top 200 and Annex 3 examines the differences between them.

Table 2: Top 200 Sector share of Enterprise Survey Sectors

Enterprise Survey # Firms	Top 200			Share of Enterprise Survey Sector			
	# Firms	Sector	Description	Labour	Assets	Turnover	Tax
1,013	6	A	Agriculture, forestry and related service activities	24.4%	14.2%	29.7%	52.2%
1,173	15	C	Mining and quarrying	41.1%	59.7%	62.9%	96.3%
23,469	110	D	Manufacturing	15.8%	24.4%	27.2%	29.7%
208	2	E	Electricity, gas and water supply	50.1%	84.4%	85.5%	58.3%
14,523	12	F	Construction	4.9%	8.4%	9.5%	9.8%
45,822	20	G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	6.6%	9.3%	13.3%	17.1%
4,655	1	H	Hotels and restaurants	3.6%	4.6%	9.0%	11.7%
6,609	17	I	Transport, storage and communications	38.9%	62.6%	54.9%	68.9%
1,096	16	J	Finance, credit	75.6%	78.6%	63.5%	21.6%
8,598	1	L	Real estate, renting and business activities	0.5%	4.7%	7.7%	18.4%

* Sectors with no firms in the Top 200 are not included. A full list of sectors is included in Annex 4.

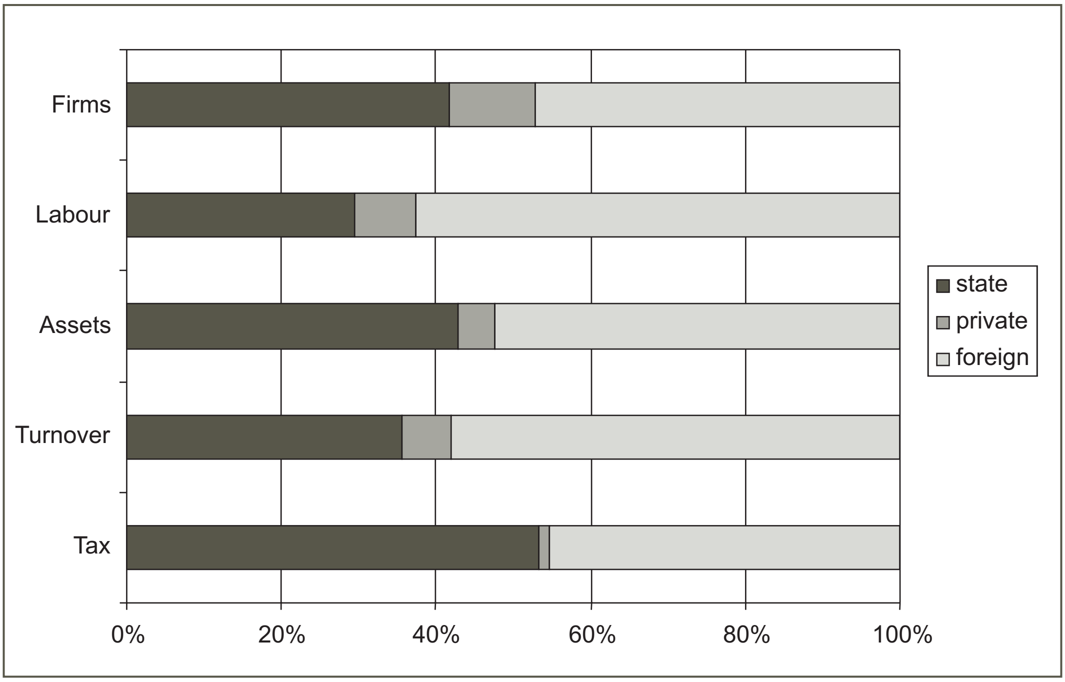
Large foreign companies dominate manufacturing and are particularly important in terms of employment. Of the Top 200 manufacturing firms, foreign companies account for nearly one-half of the firms, almost two-thirds of employment, over half of assets, nearly sixty percent of turnover and forty-five percent of taxes paid. One wholly foreign owned footwear firm, Pouyen Viet Nam, accounts for over thirteen percent of manufacturing workers in the Top 200. This company also accounts for one-fifth of all the foreign manufacturing workers. Pouyen Viet Nam employs the second highest number of workers in the Top 200, after the Viet Nam Post and Telecommunications Group (VNPT).

Foreign firms are the only firms operating in the following manufacturing sub-sectors:

- Vegetable and animal oils
- Prepared animal feeds
- Other food products from starches
- Soaps and detergents
- Engines and turbines
- Domestic appliances
- Office machinery
- Computing machinery
- Electric motor, generators and transformers
- Insulated wire and cable
- Other electrical equipment
- Television and radio transmitters, apparatus for line telephony and telegraphy
- Television and radio receivers, sound or video recording apparatus
- Motor vehicles
- Motorcycles
- Bicycles
- Furniture

These foreign firms tend to be either of the import and distribute or import, assemble, export variety. Linkages with domestic suppliers are weak, although this varies by industry (VDF 2006).

Figure 2: Top 200 Manufacturing by Ownership Type



1.2 History of Viet Nam's Largest Firms

Seventy of the Domestic Top 200 firms were established after 1995. Of the remaining firms, 27 were established before 1975. A further 25 southern firms, although dating themselves from 1975 or soon after, were actually reconfigurations of pre-existing southern private firms or subsidiaries of multi-national companies.

Enterprises were established in the Democratic Republic of Viet Nam for one of three purposes: to supply the war effort, to build infrastructure or to produce goods for the local economy. They were small scale workshops, factories or shipyards usually built with Chinese or Soviet aid and turnkey technologies. Nam Trieu Shipbuilding Company was established in 1965 to produce river craft for the navy. Sao Vang Rubber (SRC) was established in 1960 and produced tyres for army vehicles. Thang Long Metal was established in 1969 to supply stoves and other products to the domestic market. In a similar manner, southern firms also supplied the army or produced for the southern economy.

In 1975 the government embarked on the task of fusing the economies of the north and south. Southern firms were 'nationalised' and transformed into state owned enterprises (SOEs) following the northern model. Some firms continued in forms that were largely unchanged. Company No. 28 (Agtex) and Phong Phu Textiles produced uniforms for southern forces and continued to supply the armed forces after 1975. Nha Be Garments and Quang Ngai Sugar also passed into state ownership with few structural changes. Other firms were nationalised units of foreign companies. A Michelin tyre factory became Southern Rubber Industry Company (Casumina) and a Nestle facility was combined with Dutch and Chinese companies to become Viet Nam Dairy

Products (Vinamilk).[7] Other combinations of previously unrelated southern companies resulted in Southern Fertilizer Company (SFC) and Viet Nam Electric Wire and Cable Company (Cadivi), a combination of ten private factories.

The collapse of the Soviet Union accelerated the pace of reform but also produced a macroeconomic crisis of massive proportions. The 1989 austerity programme and attempts to wean Viet Nam off Soviet aid were followed in the early 1990s by reform of business legislation, the SOE sector and the terms under which firms could conduct international trade.

Trade with the Soviet Union accounted for a significant proportion of total Vietnamese trade (Van Arkadie and Mallon 2003). Goods produced by large SOEs passed through central import-export enterprises in exchange for imports and as loan repayments.[8] According to a manager of Agtex, the firm exported to the Soviet Union solely via a state import-export company:

> At that time only large SOEs could export for the Government to pay back the loans. Small firms were not allowed to so they produced for us. We exported their products and paid them using funds from the state budget allocated to us to pay for the goods.

After 1987 Agtex continued to export to the Soviet Union and to produce military uniforms. However, to meet its targets it began to expand in new directions:

> At that time, MoD [Ministry of Defence] invested a lot in this company and we could use only eighty to ninety percent of production capacity to produce for the military. So we needed to find other business opportunities to earn more profits.

The fall of the Soviet Union meant that firms like Agtex needed to find new trading partners. Garment Company No. 10 (Garco 10) also exported to the Soviet Union through a state trading company. It began to export to the EU directly in 1992 when a German company seeking a low cost supplier provided Garco 10 with technicians and a loan to produce shirts. The loan took eight years to pay back. The benefits of being able to trade directly rather than through an intermediary were described by a manager of a leading seafood company:

Box 5: What Does 'FPT' Stand For?

One version of the history of FPT begins in 1988, when thirteen Vietnamese returned from studies in Russia to found a company. They had studied mathematics, information technology and similar subjects. While in Russia they decided that Viet Nam was small and needed to develop. They wanted to connect Viet Nam and Russia and 'start making money.' The company they created was called Food Processing Technology (FPT).

As the company started operations, one member was distinctly unhappy. Trained as a software engineer, he was bored and complained, loudly. A curious neighbour from upstairs decided to see what all the fuss was about. This software engineer, now the head of FTP Software, bemoaned the lack of interesting IT work at this new food processing company of his. 'Can you do software?,' the neighbour asked. So began one of the initial IT projects that helped send the company on its way.

[7] The names of many companies have changed over the years. For ease of reference the full current name of a company will be used when the firm is first mentioned. Later references will use a shortened version.

[8] Viet Nam Northern Food Corporation (Vinafood 1) and Viet Nam Southern Food Corporation (Vinafood 2) both originated in the various import and export companies established to import rice and other foods in the 1980s.

> Before 1993, all seafood companies had to export through Seaprodex [Viet Nam National Seaproducts Corporation]. Then a new policy allowed the companies to export for themselves. Before this Seaprodex was much more profitable than the seafood companies. Afterwards the branches of Seaprodex made less profit and some made losses.
>
> Our company started to export to Japan. The Japanese companies knew about this company through Seaprodex and contacted us directly to place export orders.

In 1993 Seaprodex exported just over six percent of Vietnamese marine products and state import-export companies exported approximately seventy percent of total seafood exports (Fforde 1994).

In December 1992 Viet Nam signed a textile and garment trading agreement with the European Community and improved terms with regional neighbours including Japan. The need to find new trading partners was most urgent in the garment and textile sector. Several of the largest garment companies exported to the Soviet Union or produced for the Vietnamese government. The Soviet Union, along with China, was also the source of much of their capital equipment and technology. Viet Tien Garment Company's (Vtec) story is typical. The factory was nationalised in 1975 and was soon producing large orders for the Soviet Union with technology from Eastern Europe and expertise from a northern garments company. In the 1980s Viet Tien developed a relationship with an Hungarian firm, from which it received machines and technological support. Viet Tien produced shirts according to the designs of international brands for which the Hungarian firm had the license. In 1989 the relationship collapsed. However, in 1991 Viet Tien bought the same licenses itself and successfully developed customers in Western markets.

As Viet Nam's economy grew through the 1990s firms expanded their operations across the country, establishing joint ventures, building new plants and opening distribution outlets. Two of Viet Nam's largest producers of consumer goods, Binh Tien Consumer Goods Production Company (Bitis) and Vinamilk, were among the first to expand their operations nationwide. Bitis took advantage of the removal of internal trade barriers in 1987, and was one of the first companies to build a brand in Viet Nam:

> We recognised that Viet Nam was a huge domestic market with 80 million people. [At that time] there were only Thai and Chinese products so we decided to invest in the domestic market. Of course, it needed a lot of investment in our brand name, employees and the distribution system … It took us five years to capture market share from Thai products.

Vinamilk built a factory in Ha Noi in 1994 and established a joint venture in the centre of the country in 1996. Like Bitis they begun to distribute nationwide once internal barriers were removed: 'Before 1986, trading companies specialised in distributing our products. So Vinamilk provided products to them, then these companies redistributed them.' After 1988, all companies could both produce and trade. So any Vinamilk staff who wanted to sell the products could become agents, wholesale or retail.

1.3 General Corporations

In the Domestic Top 200, 120 firms are members of General Corporations, a form of business group in which an apex or umbrella organisation supervises the activities of member companies. GCs are the successor organisations to Enterprise Unions of the central planning period.[9] During the 1970s unions of enterprises were established, managed by the

[9] No attempt will be made to summarize the large literature on the history of reform in Viet Nam. For those interested, see Van Arkadie and Mallon (2003). UNDP (2006a) provides a bibliography on this topic.

planning departments of line ministries (Fforde 1988). In the 1980s more autonomy was given to SOE managers and the enterprise union structure began to lose relevance. The legal framework for GCs was promulgated in 1994 and over the next two years GCs were established in a range of sectors. In some instances the GC *was* the sector. For example, in 1997 the coal GC accounted for 100 percent of the coal industry (Marukawa 1999). In 2005 the coal GC and its members still accounted for 95 percent of the industry.[10] This emerged as a result of monopoly positions given to enterprise unions turned general corporations charged with developing their respective sectors. The effect was to create distinct 'silos': coal, oil and gas, electricity, shipping, post and telecommunications and so on.

Box 6: Member Companies of General Corporations

Nearly three-quarters of the Domestic Top 200 companies are state firms, most of which are members of General Corporations (GCs).

Table 3: Domestic Top 200 General Corporations

General Corporation	Abbreviation	# Firms
Viet Nam National Coal and Mineral Industries Group	Vinacomin	15
Viet Nam National Textile and Garment Group	Vinatex	11
Viet Nam National Cement Corporation	VNCC	9
Viet Nam Rubber Group	Geruco	8
Viet Nam National Chemical Corporation	Vinachem	8
Viet Nam National Shipping Lines	Vinalines	5
Viet Nam Shipbuilding Industry Group	Vinashin	5
Viet Nam Insurance Group	BaoViet	4
Viet Nam Oil and Gas Group	PetroVietnam	4
Viet Nam Post and Telecommunications Group	VNPT	4
Hanoi Construction Corporation	HACC	3
Viet Nam Airlines	Vietnam Airlines	3
Viet Nam National Petroleum Import Export Corporation	Petrolimex	3
Viet Nam Paper Corporation	Vinapaco	3
Civil Engineering Construction Corporation No. 5	Cienco 5	2
Electricity of Viet Nam	EVN	2
Hanoi Electronics Corporation	Hanel	2
Song Da Construction Corporation	Song Da	2
Viet Nam Engine and Agricultural Machinery Corporation	VEAM	2
Viet Nam Industrial Construction Corporation	Vinaincon	2
Viet Nam Railways	VNR	2
Viet Nam Steel Corporation	VSC	2
Other GCs		19
Total		**120**

[10] The market share figure is from the UNDP questionnaire.

Table 4: Domestic Top 200 Central SOE and State JSC Ministry Affiliation

Ministry	# Firms
Defence	4
Trade	4
Transport and Communications	3
Construction	2
Agriculture and Rural Development	1
Industry	1
Post and Telematics	1
State owned commercial banks	4
Total	**20**

The Ministry of Defence firms are two construction companies, one garment company and one port. This table is based on the enterprise survey and is valid for 2005. In 2007 it is out of date. Part of the SOE reform process includes transfer of ownership of state capital from ministries to the State Capital Investment Corporation (SCIC) after equitisation. For example, the state capital in the Ministry of Industry company, Vinamilk, is now managed by the SCIC.

Box 7: Not Your Typical Company History

An HCMC investment and import-export firm was established as a quasi joint stock company with capital, expertise and access to regional networks provided by local Vietnamese-Chinese and land provided by the state.[11] On the board were three local entrepreneurs and three Vietnamese-Chinese district officials. The company provided inputs and exported the outputs of local firms. Most of its imports were from the same sources as before 1975. The model was soon copied across the city. Although the freedom granted to the company provided a spur to the local economy it also undermined the planning and price system. The company mainly traded in kind, but it also sold goods directly to local consumers. In 1982 Ha Noi clamped down on non-plan activity and in 1983 the company surrendered its right to trade to a newly established SOE, Imexco.

Elsewhere in the city a young Vietnamese couple established two small workshops to make rubber sandals. Ten years later the workshops would be renamed Binh Tien Consumer Goods Production Company (Bitis) and would be the first private Vietnamese company to directly export and establish a joint venture with a foreign partner.

In Binh Duong an employee of a small state owned husbandry company borrowed four million VND from the company's welfare fund to establish a state owned rubber manufacturing enterprise. The loan was repaid within four years. Over the next twenty years Binh Duong Production and Import Export Company (Protrade) diversified, established joint ventures with foreign partners including Dutch Lady and is now one of the most successful firms in Viet Nam.

[11] This firm is ranked 216th in the Domestic Top 200.

It has been suggested that the GCs were an attempt to replicate the Korean *chaebol* model.[12] Yet beyond the fact that they are both large business groups, GCs and *chaebol* share few similarities. For example, GCs do not have their own group-affiliated banks and are not active in numerous sectors like the Korean conglomerates. Many GCs have diversified their business activities, but most often to supply inputs to member companies. The Viet Nam Coal and Mineral Industries Group (Vinacomin) developed a truck manufacturing subsidiary to supply itself with mining trucks but did not sell outside the corporation. The Viet Nam Paper Corporation (Vinapaco) established its own chemical company using inputs from its major paper factory to supply Vinapaco members. Since it does not use all of the chemicals produced it also sells to other firms outside the corporation. The silo effect resulted in diversification within GCs but not competition among them.

Box 8: Musical Ministries Who Supervises Dairy?

Vinamilk was established as the Southern Milk and Coffee Company in 1976 following nationalisation of three factories: Thong Nhat Dairy, formerly belonging to a Chinese corporation, Truong Tho Dairy, formerly belonging to Friesland, and Dielac, under construction and formerly owned by Nestle. It operated under the General Department of Food.

In 1982 there was a re-combination of ministries to create the Ministry of Food Industry. Vinamilk was transferred to this ministry and changed its name to the Milk Coffee Confectionary 1 Company. Due to this government restructuring, all food product companies were assigned to the Ministry of Food Industry. Two existing but previously independent factories were transferred to Vinamilk: Lubico Confectionary Company of HCMC and Bich Chi Nutrient Powder Factory of Dong Thap.

In 1989 this changed again. The Ministry of Food Industry was separated into the Ministry of Food (MoFD) and the Ministry of Industry (MoI). The Ministry of Agriculture (MoA) was also created. Vinamilk and dairy products fell under Industry. Food fell under MoFD and coffee under MoA. So Libeco Confectionary was returned to HCMC and Bich Chi Nutrient Powder was returned to Dong Thap, both under MoFD. Bien Hoa Coffee was returned to Dong Nai, under MoA.[13] Vinamilk was back down to its original three factories.

For a brief time Vinamilk itself was under MoA. There was a plan to link dairy farms and milk production but this did not happen. The argument was that 'milk had something to do with cows, and this [cows] means agriculture.' Off Vinamilk went to MoA, but this did not last.

In 1992, the Milk Coffee Confectionary 1 Company changed its name to Viet Nam Diary Products (Vinamilk), under the Ministry of Light Industry in yet another ministry move. According to Vinamilk, they 'saw no difference' between the ministries.

[12] See, for example, Marukawa (1999) and Fforde (1995). The theory has some credence as senior government officials had just returned from a visit to Korea.

[13] It is not clear when Bien Hoa was assigned to Vinamilk.

Box 9: Defence Targets

Most firms reported that targets were negotiable, flexible and adjustable not the binding agreements generating firm dynamism and will to achieve. This is not the case in all firms or GCs, however. Company No. 28 (Agtex), a garments company under the Ministry of Defence, had an all together different perspective. They said that 'because we are a military company we have strict MoD oversight and control. If we do not meet our targets and make profits then we [the managers] will be demoted, so we have a strong incentive. Other SOEs are more loosely supervised so it is ok to get by.'

Some GCs have played a decisive role developing their sector. Of all the GCs we interviewed the Viet Nam Shipbuilding Industry Group (Vinashin) probably had the most ambitious objective: to make Viet Nam the fourth largest shipbuilder by 2018.[14] The five shipyards in the Domestic Top 200 are all Vinashin members and are there courtesy of international and domestic orders secured by Vinashin. As well as finding customers, Vinashin helps its members with technology, managerial advice and finance. Nam Trieu's dramatic development is illustrative. In 1996 the shipyard employed only three hundred people and its production was limited to river boats. Nam Trieu now builds 54,000 dead weight tonne (dwt) ships and employs over two thousand workers.

Not all GC member companies are dependent on their GC headquarters, and only a few member companies that we interviewed claimed that the GC played a crucial role in their development. Many have pursued their own diversification strategies since the early 1990s. As revenue targets for members tend not to differentiate between core and other businesses, firms engage in a range of activities to meet their targets. The importance of hitting targets varies significantly and in some cases targets are not relevant at all.

A particular problem with the GC structure is the lack of clear ownership rights in member companies (Marukawa 1999). The corporation is the representative of state capital invested in member companies and manages this capital on behalf of the government. The primary task of the GC is to prevent the loss of state capital, and increasing it is secondary. While ownership *rights* granted to the corporation provided it with a mechanism to influence member companies, the GC mandate prevented corporations from selling or closing loss-making members. The GC had to fix poorly performing or economically unviable members rather than liquidate them to reinvest resources elsewhere. The main method for achieving this is to request a larger and better situated member company to merge with and assist smaller loss-makers. The over-riding concern is to stop losses and save jobs.[15]

In 1995 one garment company was asked to support a nearby towel producer (one of three such missions over a period of a few years) that was on the verge of bankruptcy:

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[14] In its promotional brochure Vinatex defines as one of its objectives 'to survive' (*ton tai*).

[15] Decree 388 of 1991 was an earlier round of 'rationalisation'. Between 1991 and 1994 approximately 3,000 SOEs were liquidated and 2,000 merged into other state enterprises. This was primarily oriented towards reducing the number of very small loss making local SOEs. See UNDP (2006a, p.6-7) for further discussion. Decree 388 did not have a substantial impact on the firms interviewed since most were members of corporations.

> They did not have a market and had huge bank debts. So we had to share our capital and our markets, both domestic and export markets. We had to give them money to cover their debts and send managers there to reorganise production. We had no support from the state and at that time we were also in difficulty.
>
> The Ministry of Industry asked Vinatex [Viet Nam National Textile and Garment Group] who selected us [to help], as we were judged to be the leading company in the area.

Another garment company was asked to merge with a failing company in 2003. They managed to turn the company around by 'giving them orders to produce, sending them machinery and sending them management and technicians.' The same company was also asked by the Ministry of Industry to establish a factory in a rural area to provide employment for local residents. Although the factory only just covers costs the company will not close it down because they 'don't dare' and have a 'social responsibility.' Very few of the firms interviewed agreed that they would have made the decision to merge unprompted.

1.3.1 Reform

State enterprise reform is changing the relationship between GCs and between general corporations and their member companies. The GC silos are breaking down and general corporations are encroaching on each other's traditional business areas. Vinacomin and the Viet Nam Oil and Gas Group (PetroVietnam) are moving into power generation, once the preserve of Electricity of Viet Nam (EVN). Vinashin and PetroVietnam are moving into shipping, once the domain of Viet Nam National Shipping Lines (Vinalines). Viettel and several other firms have entered telecommunications to compete with VNPT. The breakdown in silos is part of the larger processes of international integration and SOE reform.[16] GC member companies are becoming joint stock and limited liability companies and at the same time equitising their own member units and divesting from those they do not want or do not think are viable businesses. The equitisation process is resulting in the disintegration of some GCs. Once equitised, many GC members now have less than fifty percent GC (state) ownership. General corporations are becoming, as one member company manager said, 'just another shareholder.'[17]

An alternative reform path for GCs is to retain a majority share and dominate the core business activities of member companies. For example, Vinacomin members can only sell coal to Vinacomin and all Vinashin shipyards require approval to ensure consistency in costs and pricing. These economic groups are not abandoning core business areas but are aggressively expanding and diversifying. Investments are being made in core and non-core business areas. Vinacomin is moving into bauxite mining and aluminium production, and increasing investment in coal fired power plants. Vinashin is working with Posco of Korea to establish ship steel production facilities. It is also working with Korean and Japanese firms to enter ship design, licensing Wartsila engine technology and establishing a JV to manufacture navigation equipment. Vinashin also recently received a loan to finance the construction of a brewery. PetroVietnam is moving into refining, petrol stations and

[16] According to the 2005 Enterprise Law, all state firms will be transformed into companies under its jurisdiction (rather than the 2003 SOE Law) by 2010.
[17] For further discussion on atomisation of corporations through equitisation and the GC reform process, see Annex 5.

Box 10: The corporations they are a changing

State corporations are undergoing a transformation into organisations that operate under the Enterprise Law as part of the SOE reform process. The existing model is the General Corporation (*tong cong ty*) of two types: GCs 90 under ministries and provincial People's Committees and GCs 91 under the Prime Minister. What are they changing into?

Parent-Child Model (*cong ty me cong ty con*)

Most GCs will operate under this structure. The parent company is no longer simply an administrative unit. It will be a business entity that controls its child companies based on the level of investment of the parent. Holding majority shares will allow the parent to retain control over the strategies and plans of child companies and to appoint senior management. All child companies must operate under the Enterprise Law. The parent company can remain an SOE if it operates in a strategic sector (see UNDP 2006a). The transformation process is ongoing and the term 'corporation' will refer to both GCs and parent-child model corporations.

Economic Group (*tap doan*)
A few GCs are transforming into Economic Groups, which are diversified business groups that oversee several parent-child model corporations. They will also have their own group investments in joint stock, limited liability and joint venture member companies. The control that the group exercises is also based on the level of investment it holds in its member companies.

When member companies are equitised the proceeds stay within the corporation or economic group. When the parent company itself equitises the proceeds go to the government and management of remaining state capital is transferred to the State Capital Investment Corporation (SCIC). It is not yet known if SCIC will manage the remaining state capital in economic groups if and when they equitise.

natural gas power plants while beginning construction of a five star hotel, office and apartment complex.

Equitisation and the reform of the GC structure mean that many firms in the Domestic Top 200 enjoy greater autonomy in formulating and pursuing corporate strategies. For some firms, diluting the state's share through new equity offerings is part of that strategy. Others are still heavily constrained by their controlling institutions.

2 Strategies

Managers of Vietnamese firms and business groups must decide how best to respond to policy changes that have resulted in increased competition and uncertainty but also greater autonomy and opportunity. The strategies they choose are based on their perceptions of potential profitability in different markets and their capacity to compete, reduce costs, increase scale and improve quality. The firms we interviewed described three broad strategies: upgrading core business activities, expanding export markets and diversifying into new business areas, frequently real estate, tourism and investment in the country's emerging capital markets. These are not mutually exclusive and many firms are pursuing two or all three strategies simultaneously.

Foreign firms account for almost half of the manufacturing sector in Viet Nam. Large Vietnamese manufacturing firms are concentrated in seafood processing, textiles and garments, fertilizer, rubber products, cement and shipbuilding. Firms were interviewed in all of these sectors except cement. The strategies pursued are essentially the same as those from the early 1990s when the collapse of the Soviet Union forced Vietnamese firms to find new markets and produce new goods and services. Large firms are moving into related products, higher quality products and new business lines. They continue to develop brands, expand distribution channels and enter new markets. The chain-smoking general director of one company who stopped in the middle of our interview to take a call in Chinese summed up the problem succinctly: 'Complacency,' he said, 'is the danger.' The main reason for this is increased competition.

In 2000 Viet Nam entered a bilateral trade agreement with the US and in 2007 joined the World Trade Organisation (WTO). By virtue of these agreements, Viet Nam has gained access to global markets while reducing protection for domestic industries. State owned enterprise reform has seen the barriers between state firms break down with a corresponding increase in competition, even within strategic sectors. Foreign investment has poured into the country, focused both on using Viet Nam as an export base and to sell products domestically. Increased competition has forced Vietnamese firms to adapt and respond.

Competition from China has driven Vietnamese exporters to increase product quality. Several large Vietnamese garment companies cited the competitive strength of China, combined with the removal of

Multi-Fibre Agreement (MFA) quotas under WTO, as the major motivation for moving into higher quality products. Garco 10 said that because of China it is not possible to compete in 'normal products', meaning high volume, low margin, easy to produce garments. In order to survive Garco 10 is moving into higher quality shirts and suits that require more advanced technologies, more investment and skilled staff. Other large Vietnamese garment companies made similar moves for similar reasons. During a tour of the Hyundai Vinashin shipyard a senior engineer cited competition with China as the primary motivation for cutting project completion times, controlling costs and boosting quality.

Vietnamese firms have also responded to other sources of competition in foreign markets. Viet Foods is now the number one supplier of difficult to produce sushi shrimp, accounting for nearly forty percent of all the sushi shrimp eaten in Japan. It now plans to leverage its expertise into less demanding export markets to diversify and reduce its reliance on the Japanese market. Most large Vietnamese exporters mentioned expanding and diversifying export markets as a key goal. Recent anti-dumping cases against Vietnamese firms have driven home the need to pursue such a strategy.

Box 11: The Impact of US Anti-Dumping on Large Vietnamese Seafood Firms

Vietnamese firms seek to diversify markets in order to spread risk, for example to avoid negative shocks from anti-dumping cases. The recent anti-dumping cases against Vietnamese seafood exporters demonstrate the adaptive strategies of these firms. One seafood processing firm said that its response to anti-dumping was to lower production costs to counteract punitive tariffs.[18] That this might simply provoke new dumping accusations was not considered. Viet Nam's non-market economy status means that major foreign markets assume that firms are receiving state support and this explains their lower costs and price competitiveness.[19]

Another seafood company was in the process of building a factory to serve the US and Japanese markets when the US anti-dumping case hit. They promptly re-designed the factory to focus exclusively on Japan.

Coastal Fisheries Development Company (Cofidec) was planning to invest in a hotel when the US levied anti-dumping tariffs on Vietnamese marine products.[20] The company laid off seven hundred of its 2,400 workers and decided to focus on production. It brought in Japanese experts to retrain workers in growing organic fruits and vegetables for air shipment to Japan. No other firm in Viet Nam currently operates in this area. It is now planning a joint venture with a Japanese partner in bio-chemicals for use in the domestic market and for export.

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[18] This firm is ranked 235th in the Domestic Top 200.
[19] This is examined in more detail in UNDP (2006b).
[20] Cofidec is ranked 275th in the Domestic Top 200.

Box 12: Vietnamese Distribution, Differentiation and Brands

Many firms oriented towards the domestic market have spent considerable time and resources developing distribution systems and strong domestic brands. Both Vinamilk and Rang Dong Light Source and Vacuum Flask Company went national in the very early 1990s. Firms also rely on trading companies with their own distribution and retail networks, selling to such companies as Hanoi Trade Corporation (Hapro), Saigon Trading Group (Satra) and Metro Cash and Carry.

For GC member companies, an element of geographic segmentation has occurred. For example, Lam Thao Fertilizers and Chemical Company (Lafchemco) in the north, Southern Fertilizer (SFC) in the south; or Garment Company No. 10 (Garco 10) and others in the north, Viet Tien Garments (Vtec) and Nha Be Garments (Nhabeco) in the south.

Nhabeco is expanding into the central region because no large competitors operate there. They will open factories and establish a distribution system to serve the domestic market and export. The move into the central region will reduce transportation costs and allow Nhabeco to take advantage of cheaper provincial labour compared to factories in Ho Chi Minh City.

Vtec has developed several brands to differentiate itself, include Viettien, Vee Sendy and TT-up. These brands are designed for different market segments such as young people, teachers and office workers. Vtec is in the process of establishing the Vee Sendy brand in Australia.

The Southern Rubber Industry Company (Casumina) intends to differentiate its products by improving after sales service in its tyre business.

When asked for the reasoning behind particular moves into new products and services, several firms responded that 'no other firm in Viet Nam is doing this.' This indicates a focus on differentiation to improve competitiveness but fails to address the implications of ongoing changes in the economy. Viet Nam has been and continues to expand into global markets while opening its domestic market to further foreign competition. Competitors are no longer just other Vietnamese firms, but also include foreign firms producing in Viet Nam or exporting into the Vietnamese market.

Most firms find developing a brand in Viet Nam feasible, but nearly all said that establishing a brand overseas is expensive and difficult. Many Vietnamese firms access international markets through global distribution firms that possess their own brands. These distribution companies would not approve of Vietnamese firms establishing independent labels. In any case, doing so is still beyond the capabilities and resources of most large Vietnamese firms.

Firms access new export markets in a variety of ways. Often it is foreign buyers that contact firms. Foreign companies that sell equipment to Vietnamese firms, and which in some cases supervise the upgrading of these firms, also have useful international contacts. Vietnamese firms also enter into production contracts to produce under a foreign brand for export. The role of the state in entering new markets is mixed. Most firms enter new markets after high level state visits or trade agreements. Some general corporations even accompany government delegations, making contacts directly. After official contact has been established, firms themselves take the initiative by establishing branch offices and representatives in foreign markets. This step receives little state support, as most exporters did not feel that the trade representatives in Vietnamese embassies are particularly helpful. Firms under the Ministry of Defense benefit from the presence of military attaches in overseas embassies who accomplish the trade representative function for them. Trading companies are also used, sometimes in conjunction with state agencies, for example Vinamilk's efforts to enter Middle Eastern markets.

While some firms only export, most large Vietnamese manufacturing firms sell in both the domestic and overseas markets. The relative importance of domestic sales and exports varies by industry. Companies producing paper, metal and electrical products, dairy, and fertilizers were originally established to cater to the domestic market. However, most began exporting by the late 1990s and almost all now see export markets as the primary source of revenue growth. As a senior manager at Thang Long Metal said, *doi moi* is about 'product diversification to meet domestic demand and to export.' Several firms mentioned using exports as a source of revenues to replace sales lost in the domestic market as import competition increases.

Expanding export markets and moving into higher quality products are not the only strategies open to large Vietnamese firms. Not all firms are pursuing the quality niche strategy. Some are simply diversifying into similar products, for example from shrimp into catfish. Others are finding the push into higher value added products difficult, for example rubber plantations attempting to move into rubber manufactures. While some firms are actively pursuing the upgrading strategy, others indicated this was only a short term plan. Given the difficulties and long learning periods required to achieve moves into higher quality products, discussed in more detail in the following sections, it is unclear whether these firms will succeed.

The quality niche strategy itself is only the beginning. It is an excellent strategy for confronting the challenge of high volume, low margin China and indicates a level of dynamism and optimism about the future. However, the security of moving from shirts to suits is not high, and may only be temporary. One positive sign is that the

Box 13: Geruco, Vinachem and Rubber Manufacturing

Nine rubber plantations are in the Domestic Top 200, eight of which are members of the Viet Nam Rubber Group (Geruco). They are all following Geruco into plantation development in Laos and Cambodia due to lack of available land in Viet Nam. They have also been tasked by the government with moving into higher value added rubber products. This is proving difficult. Foreign firms are establishing rubber manufacturing facilities. Three Viet Nam National Chemical Corporation (Vinachem) member companies already operate in this area. These plantations sell rubber to the foreign and Vinachem rubber manufacturers but do not receive any upgrading support from them.

One plantation tried to work with an Italian firm to develop elastic for the textile and garment industry. However, the partnership did not work due to incompatible objectives. The plantation wanted long term cooperation and assistance in exporting, but the Italians were only looking to sell equipment and machinery. This same firm said that 'maybe because we are farmers we are not good at business.'

The response to difficulties in breaking into rubber manufactures mirrors that taken by other large firms in Viet Nam. A few plantations are investing in the Geruco rubber based sports equipment company. Several plantations are moving into rubber wood products manufacturing and a few into unrelated businesses like seafood. Almost all of them are engaging in real estate and industrial zone development.

firms engaging in and succeeding in implementing this strategy are embracing the challenge and seeking avenues to adapt and expand in the face of increasingly fierce competition. Many of the managers we spoke to also believed that their long-term survival and prosperity depended on their ability to continue to diversify activities and improve the efficiency and quality of their production processes.

A more worrying development is the final strategy that emerged from our interviews. Many firms are moving into unrelated business areas, in particular real estate, tourism and finance. An extreme example is the Can Tho Agricultural and Animal Products Company (Cataco). A local SOE established in 1978 as an agricultural products and husbandry company, it began diversifying in 1992 into seafood processing and export, real estate and construction, hotels, restaurants and tourism. Cataco currently earns most of its revenue from seafood but is now shedding business units through equitisation to raise capital for investment projects and will focus on hotels and restaurants.

Most firms are not leaving their core businesses, even though many core business areas are not profitable. Some firms said that they felt obliged to continue to operate their core businesses to secure jobs. These firms are expanding and improving existing products while simultaneously entering more profitable business lines. Sometimes these strategies are intertwined. For example, one company has been forced to relocate out of a major urban area and is using the opportunity to build new production facilities and to develop an industrial zone for itself and foreign investors.

Company No. 28 (Agtex) is a Ministry of Defense textile and garments firm moving into real estate, industrial zone development and petrol trading. The primary concern of senior management is to secure profits for itself and jobs for its employees. Profits from textiles and garments are expected to decrease, especially since Viet Nam joined WTO, even to the point where they are 'lower than if you deposit the money in the bank.' Operations in textiles and garments will provide jobs but no profits, and Agtex hopes to gain higher returns from its real estate, finance and petrol activities.

The Phong Phu Corporation under Vinatex recently signed a USD 80 million joint venture contract with ITG Group for a textile and garment 'supply chain city' in Danang, expected to be operational by the end of 2007. In 2003 it built several profitable resorts. Phong Phu's core business will be textiles but it is expanding in real estate and commercial centres. The plan is for sixty percent of revenues to come from textiles while real estate, tourism and other business activities provide most of its profits. These profits will be invested to expand further in textile production.

Like Phong Phu, Binh Tien Consumer Products Ltd (Bitis) is more typical of large firms moving into new business areas. Bitis is a major player in footwear and is building new factories for existing and new products. In 2003 it established a training centre to improve skills and the design capacity of its workforce. In 2006 it developed the Vosto brand to sell more expensive, higher quality footwear. A walk down any major street in Viet Nam reveals the strength of its domestic distribution system. Bitis shops are everywhere and the company is expanding aggressively in China and moving into Laos and Cambodia. At the same time, Bitis is also diversifying into real estate development, hotels, tourism and office space rental. In 2004 it established an investment and construction joint venture with a Chinese partner. Bitis recently established a subsidiary in Lao Cai to operate in trade, hotels and tourism. It has plans to replicate this in five other locations in Viet Nam, building multi-function complexes that include a trade centre, office space and hotels.

Minh Phu Seafood Corporation provides a final example. It plans to develop the 'complete process' in seafood, including input stock development, harvesting, processing and exporting. This will facilitate quality control, ensure stable supply, reduce production costs and increase price competitiveness. In 2004 it established M Seafood in the US to distribute its products and manage cash flow. While pursuing vertical integration, Minh Phu also plans to expand into real estate, ports, banking, investment funds and equity investments.

These examples show the range of strategies pursued by Viet Nam's largest firms as they respond and adapt to increased competition. Three general strategies emerged from our interviews: upgrading core business into more complex and higher value products, expanding export markets and diversifying business areas, often into real estate and finance. These strategies are frequently related and most firms are engaging in more than one, with some firms pursuing all three strategies simultaneously. The implications of diversification into real estate and finance and why it is worrying are discussed in section 4. The next section reports our findings on how firms upgrade and expand markets, with a focus on the role of capital, technology and labour in determining strategies and how they are implemented.

3 Implementing Strategies: **Capital, Technology, Skills**

Firm strategies generally require capital investment, the acquisition of new technologies, equipment and skills and the ability to enter new markets or expand in existing ones. Although many of the firms we spoke to are relatively large and in some respects experienced in production and marketing, expansion is still a challenge. To become competitive in their chosen areas firms need to be able to produce at the required scale. Although the Vietnamese economy is growing, per capita incomes are still low, demand is therefore limited and the many trade agreements that Viet Nam has signed mean that Vietnamese firms have to compete not only with each other but with more advanced foreign rivals. One tyre producer, for example, identified its minimum efficient scale as sales of three million units per year. At the moment it is selling one tenth of that amount. The firm's strategy is to 'perfect the technology, reduce production costs and invest in marketing.' Yet it must do this in the face of competition from domestic rivals (all of which are under the same GC), foreign competitors in Viet Nam and imported tyres, the best of which are produced using much more sophisticated technologies.

Scale allows firms to justify initial investment costs, satisfy the demands of major customers, and make profits. However, production at scale requires organising production, marketing and the acquisition and the deployment of technologies and equipment. All in turn demand skills and experience. The more advanced the product the more difficult the process of production, marketing and technology acquisition. The following sections discuss some of the challenges that Vietnamese firms must confront in the course of developing and implementing their industrial strategies.

3.1 Capital and Finance

It is difficult to determine whether a lack of capital slowed the development of Viet Nam's largest firms. Half of the firms we surveyed identified access to capital as an obstacle to obtaining new technology and equipment. A majority, however, also responded that obtaining a loan was easier now than five years ago. When interviewed, a common explanation for this response was the presence of more banks in the domestic market, combined with a desire among banks to increase lending to successful firms due to a lack of viable investment opportunities. Too much money is chasing too few good investments. For example, one firm said that when they requested a fifty billion VND loan the bank offered to lend them 120 billion VND. The same firm reported that their bank was very unhappy when the company repaid its loan ahead of schedule.

This is consistent with another common reason given for easier access to loans: strong revenues and a solid reputation. Banks know that certain firms have reliable revenue streams and have observed this over time. They also know which firms repay their loans. Private firms in particular noted this, saying that when they were first established it was very difficult to obtain loans. They had to provide collateral and securing loans took a long time. Now, after developing their businesses, this was no longer the case.

For the largest firms, easier access to loans is not determined by ownership type. Struggling state firms reported difficulties obtaining loans while successful private firms did not. One state garment company thought that replacing its 1960s Chinese technology with modern Italian technology would be enough to reverse its declining fortunes. Unfortunately, it found that it could not afford to replace all of its equipment and could not recover the costs of the equipment that it did buy. In 2006 the government paid off the company's debts to four state banks.[21] Insufficient capital and old machinery have also held back the development of another state textile company. Only the latest of its three production lines - from 1979, 1996 and 2002 - can produce fibres of export standard and the company is struggling to find the capital to bring the rest up to date.

Box 14: Who needs Collateral?

A large sugar refinery admitted that 'before the SOE Law come into effect in 1999 we could purchase equipment from foreign suppliers and defer payment. This was easy because as we were considered an SOE and not a limited liability company, if we could not pay the debt then the government would pay.'

The issue of collateral is complex. Previously, state firms did not need to secure loans with collateral. After equitisation, this sometimes changed but whether it did or not depended on the firm and bank in question. Some banks require collateral but others do not. Some firms still do not need to offer collateral, while some that had to provide collateral in the past no longer need to do so. Some did not need collateral before but do now. One firm said that if collateral is provided then it will receive lower interest rates but the provision of collateral was 'just a formality.' Only one firm mentioned that the bank would foreclose on its collateral if the firm defaulted.

High interest rates on long term loans emerged as an area of concern, even for firms with easy loan access. This has made large investments, particularly in new factories, difficult for many firms. One strategy for circumventing this problem is to obtain short term lower interest working capital loans and use retained earnings for long term investments. The division between financing sources is not rigid. A firm can tell the bank a particular loan is for working capital and then use the funds for capital investment, avoiding higher interest rates. Some companies are forced to build projects in stages, financing the first stage with loans and then using retained earnings from stage one to finance stage two of the investment. This raises questions about the ability of firms to implement large scale projects. Not all investments can be divided into discrete stages, nor are they all small enough to be financed using working capital loans.

[21] Not surprisingly, this company has fallen from the Domestic Top 200.

Box 15: Funny Money?

One firm recently equitised a thirty percent state share and was preparing to list on the stock market. At the time of the interview, these shares were trading at thirty times their original price. The USD 126 million in shares was worth on paper an astronomical USD 3.7 billion. That an element of 'speculative froth' is present in the stock exchanges in Viet Nam is common knowledge. The relationship between share price and business fundamentals is weak and many investors believe the market is over-valued. While more companies listing might help develop the market and stabilise speculation by offering more investment opportunities, Viet Nam's largest firms are looking to rely on the securities markets in a time of uncertainty.

To better understand how Viet Nam's largest firms finance capital investments, we asked them to rank the importance of various financing options over the next five years. Over half of the firms responded that equity financing and state bank loans will be important. Just under half of the firms responded that retained earnings will be important. One third of firms responded that non-state domestic banks will be important and one fifth of firms answered that bonds and foreign loans will be important.

Since banks are seen to be an important source of financing for capital investment, perhaps the long term loan issue is not a large constraint. It also highlights the importance of the emerging securities markets, both as a source of profits and as a source of financing for investment. Getting regulation of the domestic capital markets right needs to be a top priority for government.

3.2 Technology Acquisition and Accessing Markets

Upgrading business activities, products and production processes often requires a combination of new technology, equipment and skills. The actual combinations firms choose depend on the abilities of the firm and the requirements of the markets the firm is seeking to enter. Firm capabilities and market characteristics therefore set limits on firm strategies. To try to overcome these limits many firms develop their strategies in cooperation with other organisations such as other firms, the GC or research institutes. This section outlines some of the ways that firms acquire technology, and provides examples of cooperative behaviour. We also consider the ways in which export markets influence the decisions of firms.

The process of developing new products in response to market opportunities is not new to many of the firms we interviewed. In the early 1990s, for example, firms had to respond to the opening of the economy and the disintegration of the Soviet Union. For example, the primary activity of the 1-5 Automobile Mechanics Company was 'repair and maintenance.' Taking advantage of the new found freedom under *doi moi* and the nascent construction boom, 1-5 Automobile decided to make and sell steam rollers:

> Our major job was repair and maintenance and we had worked with different types of auto engines. We studied the market and saw there was demand for this product and we knew we were capable of producing it. So we made a proposal to the ministry and received approval.

Innovation of this sort is rare, however. As all the firms we interviewed are still far from the global technological frontier in their respective sectors, most of the technologies that they need can be bought on international markets. Often the technology is embedded in purchased equipment or is relatively straightforward. Higher oil prices persuaded one company to scrap its old and inefficient Chinese equipment and invest in new Japanese equipment that cost twice as much but used significantly less fuel. The firm was able to upgrade its technology with the purchase of a new machine. Another company differentiated between the technology it bought from 'regional' suppliers and technology from Europe, where 'technology transfer contracts always require high fees.' To sell in regional markets the firm needed only to buy equipment that could be incorporated into its existing production relatively easily. However, the requirements of European markets meant the firm had to buy both equipment and technology. As a rule of thumb the closer the technology is to the 'frontier', the more expensive it is to acquire and the more complex the 'know-how' required to use it productively.

Some firms combine advanced technology with older equipment. They consult foreign experts and study companies to learn how best to achieve their objectives. Vinashin, for example, felt that a 'new and modern steel mill from the EU was too expensive and the investment costs too high.' So they invited EU steel experts to provide advice, and based on what they learned they ordered equipment from China. Another company had the opportunity to transfer technology from its Japanese joint venture. Further inspection, however, found that a combination of Chinese and Malaysian technology met its purposes and was easier and less costly for the company to learn to use.

Box 16: When is 'new' best?

A garments company used state of the art equipment and technology from a German supplier for its first production line. They built their second to export to Japan. The Japanese customer persuaded them that used equipment was a better and cheaper option and provided technicians to help assemble the production line and walk the firm through the early production runs. Another non-garments company bought second hand US machinery but found that the quality of its product was below the standard of its Vietnamese rivals with more advanced equipment.

Making the right choice is important. Fortunately, many of the firms we spoke to had the support of more experienced firms. Customers and suppliers were an essential source of information, technology and inspiration:

> We have English speakers in the company. We order technical publications and ask suppliers to provide technical expertise. We find foreign expertise, attend exhibitions around the world [US, China, Europe, Japan], attend courses at exhibitions and collect papers.

Although few of the firms we interviewed were less than ten years old most are trying to grow from a low technological base and therefore constrained in the sorts of technology and equipment that they can use effectively. For this reason, although technology and equipment can be bought on international markets, upgrading beyond existing firm capabilities can be risky and difficult. In 1999, for example, Vinashin approached Nam Trieu Shipbuilding Company to make 53,000 dead weight tonne ships for a British company. At the time the largest ship the shipyard had ever made was 10,000 dwt. After some consideration Nam Trieu decided it was possible:

> Our motto is diligence, hard work and 'dare to do it.' We knew that the standard required for domestic ships was very different from export ships. But the BoM [board of management] thought that Vietnamese workers were very diligent and hard working. We studied the design of the ship and could see it was within our reach. When [the customer] visited they also had doubts about our capacity because our facilities were very poor. But we made a commitment to meet the schedule, drew up a road map and they followed us along the way. They could see that we always met deadlines, and so we continued … If we fell behind we knew we would lose the order. Not just that order but others as well. We would also lose our reputation.

Nam Trieu successfully rose to the challenge, enhanced its reputation and on the way developed the means to take on larger and more complex projects. However, there are limits to the upgrading strategies of even the most ambitious firms. No tyre companies, for example, can currently produce automobile tyres for US or EU markets. The quality requirements are too stringent and the required technology is currently beyond the grasp of any Vietnamese firm. However, the managing director of one company noted, 'in Egypt the roads are not long and the maximum speed is only 100km/h. And as we have only medium technology we can make tyres that can reach 100-140 km/hour.' The company's medium term strategy is, therefore, to develop the North African and Middle East markets, allowing it to meet its current potential and produce at required scale.

Box 17: Tyred Technology

In the 1980s the Southern Rubber Industry Company (Casumina) co-operated with a Hungarian company, Taurus, to produce bicycle tyres for the Eastern European market. In 1990 the two companies established a rubber glove joint venture. In 1999 Michelin bought Taurus and decided to keep the tyre production facility and sell Taurus' share in the rubber glove venture to Casumina. This was not the first exchange between the two companies. In 1975 Casumina was established in the liberated factories and offices of Michelin. It was staffed by members of Sao Vang Rubber (SRC), who were trained in Russia and had some experience making automobile tyres using Chinese technology. In 1998 Casumina combined support from a new Japanese partner and its own expertise to develop more modern tyre production technology. In 2003 Casumina managed to produce its first, more advanced, 'radial' tyres. The original radial tyre design was developed by Michelin in 1946.

3.2.1 Cooperation

For several firms the upgrading process is facilitated by support from other firms. Nha Be Garments, for example, helped another firm we interviewed break into the manufacture of suits. By assisting with technology, equipment and marketing Nha Be helped the firm establish itself as a suits producer in a fraction of the time it took Nha Be. Such cooperation between firms tends to be voluntary and limited, and based on long-standing relationships, often GC membership. We found no evidence that firms within a sector but with different controlling institutions co-operated and no instances of cooperation between the state sector and the private sector.

Cooperation with foreign firms is an important way for many Vietnamese businesses to upgrade production or source technology and equipment. Of the thirty-eight firms that plan to form a joint venture with a foreign firm in the next five years, thirty-one said that their intention is to develop a new product or expand existing production. Sometimes cooperation with a more advanced and established foreign partner allows firms to undertake projects far more advanced than it could alone. One company was developing technology to produce for the Vietnamese market. It had begun sending engineers to firms and universities in China, Russia and Malaysia when Viet Nam's accession to WTO suggested a new strategy to the management board:

> Before Viet Nam joined the WTO, we planned to develop this project without a foreign partner. When Viet Nam joined we decided to select a foreign partner because we want to export our products. Without a foreign partner, this project can only provide low quality products and sell domestically. With a foreign partner our products can have a foreign brand name and be exported in the foreign partner's distribution system.

JVs also allow the Vietnamese partner to observe foreign management and organisational practises. Viet Nam Engine and Agricultural Machinery Corporation (VEAM), the partner of Toyota and Honda, rotated its representatives on the JV's management boards:[22]

> The managers are recruited from [our] subsidiaries and from the corporation. After three years working at the JV they come back to the subsidiary or corporation and take key positions. The improvement can be seen in revenues - from just five billion VND to 1,500 billion in just a few years - and in the efforts of member companies.

A garment company held a small share in several joint ventures:

> In our current joint ventures a [company] representative is the chair of the BoM [board of management] and the deputy director: the highest and lowest positions. General management and direct management of the JV's daily operations is conducted by our foreign partners. The purpose is for us to learn management expertise.

For most firms, however, the JV's most significant contribution was a share of the profits.

We found only a few firms that worked with Vietnamese research institutes and universities. Cooperation tended to be in agriculture and rubber production or in low-technology fields. One firm ended its relationship with the Ha Noi Technical University because 'the company now has more expertise in the field.' Our evidence suggests that Vietnamese universities and research institutes are still largely irrelevant to Viet Nam's industrialisation.

[22] VEAM is not ranked in the Domestic Top 200.

3.2.2 Market Requirements

Some of the examples in the previous sections show how existing firm capabilities go some way towards determining which export markets are accessible. Export markets also have a bearing on the type of technology and skills firms need to develop. Sometimes whole production processes must be geared to the quality requirements and tastes of each market. One shrimp processing factory we visited had separate rooms for the preparation of shrimp for the EU, Japan and the US. In each room different types of processing equipment had been installed and the shrimp prepared and packaged in ways specific to each market.

This same factory had chosen to export to three markets as part of its strategy to minimise the risk of demand shocks or anti-dumping cases. Another seafood firm chose not to export to the EU because 'they only like low-value products.' Several firms told us that they exported to specific markets because they were more demanding, forcing the firm to maintain high standards and develop the skills and processes required to remain competitive.

Different markets also require different types of certification. Sometimes they are not entirely necessary. SA8000, for example, certifies that working conditions are satisfactory. According to one company, 'It is not compulsory for us. But if we have it we will build up our social reputation and can export easily.'

Viet Nam Electric Wire and Cable Company (Cadivi) has a contract to supply an American company for distribution in the United States. However, for Cadivi to export under their own brand name they would need a certificate to prove that the company produces at the 'required standards.' Cadivi's US partner paid fifty percent of the fee and 'also visits us and helps us with the necessary preparation to get the certificate. For example, sending the right products to Hong Kong for testing. So we now do not need to get a consultant for this.' Cadivi believes that it is harder to get the EU equivalent of the certificate.

In trying to establish itself as a software outsourcing company, FPT soon realised that it was not as qualified as firms in India and China. To FPT's gratification their early customers remained loyal on the condition that FPT raise its standards and obtain the certificates to prove it. They achieved this target in less than four years.

Box 18: Leveraging Learning

In 1995 the Indian government provided funds for a scheme to produce tyres for Vietnamese farmers. The rubber GC, Geruco, was given the money but was unable to make the tyres as 'Geruco only plants rubber trees so cannot know about this.' The project was passed to Danang Rubber Company (DRC) which began to produce truck tyres and inner tubes. When this was mastered they began to produce tyres and tubes for tractors. In 2004 DRC approached Vinacomin, the coal GC, and suggested a project to make specialty tyres for Viet Nam's mining trucks. At the time Vinacomin was having difficulty importing such tyres and provided a loan to DRC to initiate the project. Today DRC supplies Vinacomin and has begun exporting these specialty mining tyres. It is the only producer of these tyres in Southeast Asia.

3.2.3 Accessing Markets

Accumulating the means to upgrade and produce for new export markets is no guarantee of success. Although a firm might be confident in its own abilities, potential customers still need persuading. For many the first step is letting the world know what they can do. A recent study found that international buyers have preconceived ideas of the capabilities of different countries. It suggested, for example, that higher value garment production will remain in Central and Eastern Europe because buyers in Europe and the US believe 'Chinese capabilities are not particularly advanced' (Berger 2005, p.94). Several of the firms we spoke to described how they had to persuade potential customers that they could develop the means to produce better quality and more complex products. Nha Be Garments, for example, sent 'workers to visit foreign factories to observe and find out what kind of equipment to buy' in order to move into the production of suits. This was in part because 'at the beginning it was too costly to transfer technology' but also:

> Many big international companies did not believe that Viet Nam had a company with the capacity to produce suits. Even now, some do not trust us. Sometimes technology transfer is less costly as it saves time. However, we decided to send staff overseas at the beginning due to this lack of trust.

One manager told us the story of a nearby garment production start-up firm that had suffered the fate that Nha Be had originally feared. The company had bought the very latest technology and equipment but could not find any buyers. After one look at the shiny new factory potential customers saw that the company had no experience of production and took their business elsewhere.

To provide customers for shipyards such as Nam Trieu, Vinashin had to overcome the same problem. Global shipping companies had to be persuaded that Viet Nam could build ships larger than the 10,000 dwt craft then produced. Vinashin built a sample ship, the Vinashin Sun, and sailed it around the world to meet potential clients. The voyage raised Viet Nam's global profile as a shipbuilding nation and helped to kick-start the industry.

3.3 Labour and Skills

Firms' ability to upgrade activities and product lines and meet the requirements of new markets is ultimately based on the quality of the human capital available to them. Vietnamese workers are hard working and relatively well educated. Toyota Viet Nam rank them as the second most trainable in the world after Turkey.[23] Another said its Vietnamese engineers were gaining a world-wide reputation in the company. In all the joint ventures we visited Vietnamese staff had quickly come to occupy all but the most senior positions. In 1999 Hyundai Vinashin had two hundred Korean staff. There are now seventy and by 2010 there will be only ten. The mantra that Viet Nam's comparative advantage lies in its people was supported by our company interviews.

However, large multi-national companies provide extensive and expensive training programmes for their staff. Hyundai Vinashin, for example, trains its workers on internationally recognised programmes and sends one hundred workers per year to gain experience in Korea. Labour costs, when skills development is taken into account, are therefore much higher than wages alone.[24] Many of the companies we spoke to claimed that skilled workers (and for some engineers, technicians and managers) were 'available but expensive', by which they meant the cost of training

[23] Thai workers took twice as long to train.
[24] If the inefficiencies of employing inadequately skilled workers are included the costs are higher still.

rather than wages.[25] For most the cost of developing training programmes on a par with foreign firms in Viet Nam was beyond them. VEAM explained:[26]

> They [the joint ventures] have a professional approach, clear policy and big budget. Although we have learnt a lot we cannot afford the cost [of similar training programmes]. Their budget is very big, and we do not have that amount of money. If it is too expensive then we will not be profitable.

Most of the firms and GCs we interviewed understood that industrial growth required skills development. Vinatex stressed the importance of skills in the garment industry:

> In the past labour was one of our strong points and was an advantage for Vietnamese firms. However, [production] was based on basic skills, mostly provided by women. But now we cannot compete in high quality products. We need technology and we need to train workers. With more advanced machinery we need stronger and more skilled workers. We need to recruit more male workers [sic].

Technical and managerial skills were just as important:

> Textile technology in Viet Nam is low but it is not the most important thing. Know-how and experience are key. We can buy machines and facilities but getting products to reach standards at low prices is the key issue.

Without a large and sufficiently skilled workforce attempts to upgrade and achieve economies of scale would be fruitless. Two companies, FPT and Bitis, and one GC, Vinashin, are building their own schools to provide the workers they need for expansion.[27] Vinashin needs 10,000 new workers per year as well as skilled managers and engineers:

> Because Vinashin is developing fast, staff quality is a key issue. We are lucky because Vietnamese workers are hard working, young and motivated. However, shipbuilding is project oriented and we lack good project managers. We need knowledge of shipbuilding and project management.

FPT believes that if the software industry is to reach target revenues of USD one billion by 2010 the sector will need 18,000 programmers. FPT now employs 1,800 programmers out of a total of six thousand in Viet Nam. Bitis, which also has ambitious plans for expansion, requires workers able to operate with 'flexibility' as the company responds to changing market demand. Training, we were told, is 'preparation for a long term future.' Yet Vietnamese firms like Vinashin, FPT and even Bitis must compete with companies in other countries in which the state provides much greater and more effective support to higher and vocational education. This places Vietnamese firms at a competitive disadvantage.

As a GC, Vinashin is responsible for all the shipyards it owns and its objective is to provide workers for the entire shipbuilding industry. FPT and Bitis, however, have no such obligation to other firms in their sector. Workers graduating from their schools will be trained in the latest technology and techniques. However, both FPT and Bitis understand that the risk of losing workers to rivals has to be taken. The alternative is to remain small and uncompetitive.

Most of the firms we spoke to did not want to assume this risk. As well as losing workers to rivals, they told us that to be effective vocational schools would have to train workers in up-to-date technologies for the industry. However, as more than one manager said to us, why would there be a vocational school for only one company? These firms provided in-house training instead. For most this was on the job and

[25] The question was intended to determine whether a shortage of workers was driving up wages.
[26] See Footnote 19.
[27] Some other GCs said they were developing plans to do so.

provided by more experienced staff. They would also provide graduate and post-graduate courses for engineers, technicians and managers as university educated students lacked a 'practical' component and students are not taught the latest techniques. The tyre manufacturing companies we spoke to provided newly recruited engineers with between three and five extra years of training. One of Vinashin's training centres 'co-operates with universities to organise courses for applied engineers. The training centre works with Ha Noi Technology University. Every year, we organise a training course for 50 people … The students have an apprentice period at the training centre.'

Other firms in the seafood sector and some autoparts and metalware firms had set-up dedicated vocational schools for workers. However, the skills required were basic. One seafood company defined 'unskilled' as the ability to remove the shrimp's head and 'skilled' as the ability to peel it and remove the vein. However, in the words of one manager of a major seafood company:

> When [workers] come from the training centre they only have some general knowledge. Even the teacher lacks practical knowledge because the school lacks equipment. When they come to the company they cannot even tell the different types of shrimp. Equipment for seafood processing is expensive and schools cannot afford it. The training centre will send students here to observe operations but [we] cannot afford to put them on the job as they may damage equipment or products. Our training costs are increasing every year because of new changes in quality requirements so we need to keep updating training.

This manager's lament was common. Another told us that 'we need to retrain all newly recruited staff from vocational schools.' No firms were happy with the training recruits received at vocational schools or universities and the reasons they gave were consistent. Schools did not have the latest equipment or technology, were not versed in the latest techniques or

Box 19: Education is a Public Good

All firms must manage the risk of losing trained workers to rival companies. Some Vietnamese firms had stopped sending employees overseas to study for business degrees or other qualifications since on their return the students often found higher paying jobs. In the late 1990s one garment company sent workers to Germany to take a degree level course in design. The only worker to return did so as head of his own company to order a shipment of shirts. The same company used to have a two year training course for its workers. However, the course was so thorough that most workers left for other companies at higher salaries or even started their own businesses. The company now only trains workers in isolated parts of the process.

These cases illustrate the costs to the economy of inadequate public support for education. Because firms are unlikely to recoup all of the benefits from their investments in training and education, they do not invest at the socially optimal level. Moreover, firms are more likely to invest in skills that are not transferable and less likely to invest in basic skills and research. The government must step in to raise the overall level of investment in education and research, and in particular to produce sufficient numbers of well-trained scientists, engineers and managers to meet demand.

procedures, the teachers had little practical experience and the experience they did have was outdated. Little wonder, then, that the firms that established their own schools stressed 'practical, realistic and professional training. Not theory.'

Upgrading often means firms have to develop entirely new skills. Managers, technicians and engineers have to learn new technologies. To do this companies send workers abroad to study, visit other firms and learn production techniques. One company sent its technicians and managers to study production processes in India and on short courses in universities in Russia. Another studied Italian garment manufacturing techniques.

New technologies and processes then have to be communicated to workers. Several garment and textile companies are moving outside of Viet Nam's cities. Establishing new factories in rural areas means training a new workforce. One company identified this as giving it a distinct advantage over rivals: 'We have our own methodology. Within one year of operation our factories break even. This is thanks to the fact that we carry out our training programme in advance.'

Box 20: Compensation and Salaries in SOEs

The inability to pay competitive salaries was a nagging concern for almost all the SOEs and even majority state owned joint stock companies. SOEs are obliged to abide by state salary structures and regulations that compensate employees according to the time they have spent with the company rather than their market value. Sometimes the best new graduates can only 'be paid as much as the driver who has been with us for twenty years.'

Even newly equitised firms now subject to the Enterprise Law found that little changed:

> In principle we operate under the Enterprise Law but because the state is the only owner of company capital they make decisions and have regulations to control their money ... There are difficulties trying to change the salary structure. We cannot pay as high salaries as we want to, so it is very difficult to retain good staff. We are still following the same regulations. Maybe they will change but we are still waiting to see. Changes will come from government and [our controlling institution].

However, firms can find ways to get around the problem:

> To keep good technicians and qualified staff, we do not follow the salary regulations set by the government. We look at the labour market to decide the salaries for these people. Now in Viet Nam, if the company wants to earn a profit, they must violate the salary regulations. All companies are paying more to people through the bonuses at *Tet* or national Independence Day. An SOE has to handle the payment of salaries carefully. It cannot publicise payments. All companies are doing the same.

Most managers were reluctant to describe their true compensation policies. However, they all note the difficulties that the system causes and the most dynamic have no option but to devise informal ways of paying good staff competitive salaries.

Box 21: A perfect blend of young an old?

The originators of many of the strategies that were described to us were long serving managers. Most SOEs and joint stock companies had been led by the same managers for over ten years. Most firms felt it was important that managers 'knew the business.' Managers were, therefore, recruited from within the firm. Seafood and garments companies tended to have a higher proportion of senior female staff than others for this reason. However, the potential limitations of drawing senior managers from such a limited pool of talent were recognised:

> We recruit new technicians from universities with new theoretical knowledge and IT [information technology] skills. [Unlike the older senior managers] they are good at foreign languages and can read technical papers. But they lack experience. However, the old people lack skills so we complement each other.

New skills can also be new activities in themselves. Several firms, for example, are trying to bring added value to the company by developing design capabilities. All have to recruit foreigners, or foreign trained Vietnamese. Two garments companies recently hired designers to develop their own brands for sale in Viet Nam and abroad. One had hired a French designer from a leading global company. Another had hired an overseas Vietnamese designer with US training:

> In my team, last year we hired a female American *Viet kieu* for product design at two thousand USD per month. She has done a good job. With only two assistants, she can make all the designs for the whole company.

Unfortunately, many of the firms we spoke to had grown used to the standard of new recruits from Viet Nam's universities and vocational schools and saw skills development as their own responsibility. Only the largest could afford to establish the schools necessary to meet their plans for growth. The ambitions of the rest were constrained by the skilled labour, engineers and technicians available on the market and the number they could adequately train. Even here they faced a dilemma. Firms with majority state holdings struggle to pay competitive salaries and are limited in the sorts of training they can give. This in turn places tight restrictions on the sorts of technology and equipment they can acquire and use, and so on the strategies available to them.

This section has discussed how a strategy to upgrade depends to a large extent on a firm's ability to acquire and incorporate newer technologies and production processes. This depends on availability of finance and the skills of a company's workforce. The next section addresses the policy issues that stem from this.

Box 22: Gender

We encountered a variety of opinions on gender in the workplace:

'We have more women workers because more women apply.'

'Women are careful and hard-working. So women are more suitable for this employment.'

'We require skilled workers who are good at detail. It is better to use women.'

'If strength isn't required then women are more suitable.'

'Women have good hands for sewing. Applicants are normally women, not men, as men think that textiles is for women.'

'Women are nimble-fingered, careful, patient and good at detail.'

'Seafood needs patience and nimble and thin fingers to select the shrimps so we have more females. If you are not careful you will pull the tail off.'

'In administration, public relations and marketing we have more women. Most technical positions are male.'

'[The male/ female ratio increases at higher levels of management] because the amount of work increases so [we need] to have more men.'

'Our workers come from different provinces and it's easier to supervise female workers. Male workers are more likely to cause problems.'

'The Vietnamese economy has been agricultural for a long time. Most men behave like farmers. They usually lead a very free and easy life and it is difficult to discipline them.'

'Women work full time or on a contract basis. Some women prefer [working in agriculture] because of the shorter hours and they can sing in the rice paddies.'

'Some women workers are very naughty. Women workers break things more often. It is because of their characters and their genes.'

'Men who smoke can cause fires and are a big risk for the factory.'

'We need more educated women, especially for office work and sales. But then men will be under the management of women. This is not easy.'

'Twenty percent of workers are male labourers cutting and ironing. Women work harder and are more patient. They are good at detail. Men are lazy. The modern pressing machines are controlled by men, not women. [To manage the machines] the workers must be tall, at least 1.68m, so they must be males. With increased automation we relocate workers. If the women are over 1.68m they become models.'

'With more technology the ratio of male to female increases.'

'This is natural balance: women in seafood and men in construction. When labour is mainly unskilled it is divided like this naturally. We do not have any preference when recruiting.'

'We need to have men and women in the factories because otherwise productivity will not be high. This is a yin and yang issue.'

'We started to recruit men but were not very successful. They could do the job okay, but they would not stay long because of the hardship and because Vietnamese wives love their husbands and don't want them to work so hard and long.'

'The Director General recognised that a lot of men were unemployed. We were the first seafood company to hire men [as a policy]. However, men have alcohol and smoking problems. There are more men than women with eleventh or twelfth grade qualifications. If they have more education, they will learn faster, so that's why we want to recruit men. But there must be criteria: no smoking, good moral character.'

4 Policy Issues

Competition has come in tandem with new opportunities. For the development of Vietnamese industry this is a crucial period. We found that Vietnamese firms are responding, and sometimes in unexpected ways. The American producers that accused Vietnamese seafood firms of dumping probably did not expect the response to include more efficient production and cost cutting campaigns. Strategies include moving into more complex and higher quality products and diversifying into new or related activities. Firms are establishing and strengthening brands, expanding distribution channels and entering new markets.

We also found that many firms are seeking profits from speculative investments. Developing capital markets, rising land prices and a booming real estate sector have proved irresistible to many of Viet Nam's largest firms. This strategy is not in itself problematic. Profitable firms are good for the economy. If core business lines are not very profitable, then leveraging speculative profits to finance core business expansion and upgrading can be a viable strategy. If the proceeds are reinvested in core businesses or other areas with the potential for productivity growth and employment generation then such a strategy may benefit the economy. However, this strategy is predicated on continued stability and growth in real estate and the stock market. Reliance on speculative investments as the primary source of profits for investment increases the risk exposure of these firms. It also poses questions for state institutions, which will be asked to bail out such companies in the event of a downturn.

Firms that opt for strategies to upgrade activities and product lines or develop export markets need new technologies, equipment, skills and the ability to market their product. Some firms simply make the wrong choices, misreading market signals or their own capabilties. However, our sample included some of the most successful Vietnamese firms and we encountered only a few obviously failing companies. Most of the firms in our survey that were choosing to upgrade or expand market share had encountered a variety of obstacles, and not all had succeeded in overcoming them. Although we interviewed Viet Nam's largest firms, many of the same problems also apply to Viet Nam's medium sized enterprises seeking to grow into regionally competitive firms.

Several firms clearly benefited from cooperation with foreign companies, local firms or state institutions. Some GCs provided firms with access to markets, technology and expertise they would otherwise not have had. Some firms worked with other domestic firms to learn new production processes. Although we found that joint ventures did not fit a standard model the role of participants varied as did the benefits to domestic firms several Vietnamese firms looked to their foreign partner for skills, expertise and market access. Other than GCs, however, we found that few firms benefited from organised state support. State funded research institutes were only instrumental in less technologically advanced areas as they are primarily oriented towards agricultural products, for example fertilizer and rubber. Few firms said they received much support from designated state bodies when trying to enter and expand in export markets. Most effective seemed to be high ranking state delegations.

The importance of cooperation for Viet Nam's more successful firms suggests that firms do better when they do not have to operate alone. In several instances market incentives and voluntary agreements provided firms with sufficient incentive to co-operate. However, the benefits of size and state led sector development were clear. This was most apparent in the area of skills and human capital. Many firms were limited in their ability to upgrade by the low quality of skilled labour available to them. The university system fails (with some exceptions) to provide firms with the support they require, both in terms of technological and scientific research and expertise and the provision of adequately trained graduates. When firms described the process of upgrading activities and improving productivity they emphasised the role of engineers and technicians and the importance of a skilled labour force. While all firms praised the quality of Vietnamese workers few had a good word to say about the quality of the education they receive. At best new recruits were well versed in theory. None were up to date in techniques or technology. None had practical experience. All the firms we interviewed are investing in their employees and several firms and business groups are establishing their own training centres and universities to upgrade the skills and capabilities of their work force. These firms accepted that they would not absorb all of the benefits of their investments. However, nearly all firms believed that their current and future development depended upon their employees. As one manager said:

> We have to build human resources and skill development to focus on design and service, which are more skill intensive and thus command higher prices and facilitate product diversification.

Even firms in comparatively low technology industries such as seafood and garments bemoaned the quality of the training new recruits received from state run vocational schools.

There are limits to the education and training vocational schools and universities can provide graduates. All firms have processes and technologies unique to the firm. Nevertheless, firms would benefit from a supply of workers, engineers, technicians and managers with skills comparable to the levels of Viet Nam's regional competitors. With such a workforce firms would be better able to develop new activities, improve the efficiency of production and respond to changing market conditions.

This finding does not apply only to existing large firms in Viet Nam. There already exist many small and medium sized firms with the potential to supply foreign firms investing in Viet Nam and firms abroad. However, these firms face the same challenges as larger firms. They need to meet the quality and scale requirements of large multi-national customers and export markets. They need to acquire and use more advanced technology. They need the world to know they are capable of doing it.

Our survey identified several policy areas that require urgent attention if Viet Nam is to meet its objective of becoming an industrialised nation by 2020. The Vietnamese government can assist this process in the following ways:

Encourage investment in productive areas. The successful East Asian industrialisers all curbed speculative investment opportunities, for example Korea (Amsden 1989) and Taiwan (Wade 1990). Speculation diverts scarce capital away from productivity enhancing investments and towards activities that promise quick returns. Although much is made of Korean policies to 'get the prices wrong' the broad policy objective was to encourage manufacturing. In Taiwan a high capital gains tax on the sale of real estate and a high marginal tax rate for the highest tax bracket limited the possibilities for accumulating wealth through real estate investments.

Evidence from other countries also suggests that economies benefit from cumulative learning within firms and industries and incremental upgrading of technology and skills (Lall 1992). Many of the firms interviewed in our survey supported this observation. They have reached current levels of sophistication and earn the revenues they do because they have worked hard to do business in more competitive and more rewarding markets. Over time they have developed the required technical, organisational and marketing skills. However, investing in the means to compete in more advanced activities or markets requires time and perseverance. The returns to real estate investments may seem more attractive in the current environment. The danger is that firms and whole sectors will forego the accumulation of skills, technology, experience, and market share. This is occurring at the same time that WTO commitments are being phased in, reducing most remaining elements of protection. Now is the time to invest in core business.

The state can encourage domestic firms to invest in core business areas by discouraging speculative investments in real estate and financial markets by, for example, land and capital gains taxes. It can also incentivise firms to reinvest the gains from such investments into areas which will increase the productivity of Vietnamese industry and provide employment.

Provide firms with an educated and well trained workforce. The ability to move into more complex and higher value products depends to a large extent on the ability to acquire and incorporate newer technologies and production processes. This in turn depends on the skills and training of a company's employees. For many firms the absence of skilled workers was a failure of the market. The educaton system does not supply firms with the calibre of worker they require. The government can assist firms by providing students, particularly engineers and scientists, with the same quality of education as Viet Nam's rivals. The firms that can afford to absorb the costs of training themselves have shown that Vietnamese workers learn quickly and effectively. However, most firms cannot afford to provide basic skills to their workers or conduct basic research. Entire sectors will struggle to develop without an adequate supply of skilled labour. Furthermore, improving the education system, particularly the universities and vocational schools, would not only benefit the largest firms since education is a public good. The benefits will extend to smaller firms and to the economy as a whole.

Remove salary restrictions for state invested companies. All firms should be able to pay competitive salaries and SOEs should not be an exception.

Assist firms to enter and expand in export markets. Individual firms have worked hard to establish themselves in foreign markets. The success of some GCs such as Vinashin and the number of firms that have developed foreign contacts following official state visits suggest that the state has a role to play. Industry associations are also playing an increasingly important role in providing information on world prices and organising conferences, regional workshops and other forums to connect Vietnamese firms to potential customers abroad. However, more needs to be done, particularly in export markets themselves. The government can increase the effectiveness of representatives overseas to raise the profile of Vietnamese industries as a whole. The government can also provide assistance to firms seeking to meet regulations and standards specific to individual markets. The costs can be considerable and can be enough to dissuade firms from expanding.

Conclusion

Improving productivity and increasing efficiency in large domestic firms are key to Viet Nam's economic competitiveness. Large firms are better able to achieve economies of scale and scope that contribute to international competitiveness. They also invest more in the acquisition and development of technologies and products. Large firms' requirements for infrastructure, capital and skilled labour have significant and often positive spillover effects for the rest of the economy. The country can only achieve its objective of industrialised nation status by the year 2020 if its large firms succeed.

We have shown that Viet Nam's largest firms are big compared to other firms in Viet Nam, although many barely escape international definitions of small and medium sized enterprises. Nevertheless, whether by ownership type state, private, foreign or sector of operation, the Top 200 firms account for sizeable shares of the nation's employment, assets, turnover and tax. In some cases, the largest firms *are* the sector. Within the Top 200, almost half of the largest manufacturing firms are 100 percent foreign owned.

Increased competition has forced Vietnamese firms to adapt and respond. We found that managers of Vietnamese firms and business groups have to decide how best to navigate a period of increasing opportunity and uncertainty. The strategies they choose are based on a perception of the profitability of different markets and their ability to compete, which in turn depends on their ability to produce at the required cost, scale and quality. The firms we interviewed described three broad strategies: upgrading core business activities, expanding export markets and diversifying into new business areas, frequently real estate, tourism and investments in the emerging capital markets. These are not mutually exclusive and many firms are pursuing two or all three strategies simultaneously.

Developing asset markets, rising land prices and a booming real estate sector have proved attractive for many of Viet Nam's largest firms. Such a strategy need not be problematic. Profitable firms are good for the economy. If the proceeds are reinvested in core businesses or areas with the potential for productivity growth and employment generation then such a strategy may benefit the economy. However, this strategy is predicated on continued stability and growth in the real estate and stock markets. Reliance on speculative investments as the primary source of profits increases the risk exposure of these firms. It will also pose questions for state institutions, which will be asked to bail out such companies in the event of a downturn.

For those firms investing to capture more value in their existing core businesses, profits can be found in the development of skills and technologies. However, technology is expensive and difficult to acquire, workers need to be trained and markets understood. The ability to upgrade depends to a large extent on the ability to acquire and incorporate newer technologies and production processes. This in turn depends on the skills of a company's workforce. Many firms expressed dissatisfaction with the skills and training provided by Viet Nam's universities and vocational schools. They are forced to bear the costs of improving their workers themselves and this burden is preventing some firms from moving into more skills intensive areas.

These areas emerged from our interviews as key policy issues for the government. The government can encourage firms to invest in core business areas by discouraging speculative investments in real estate and financial markets. In addition, the government can assist firms in the acquisition of skilled labour by improving the quality of universities and vocational schools. Addressing these issues will facilitate the growth and development of Viet Nam's largest firms and the continued growth of the economy.

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Annex 1: **The Viet Nam Top 200**

Rank	English Name
1	Bank for Agriculture and Rural Development
2	Viet Nam Post and Telecommunications Corporation
3	Electricity of Viet Nam
4	Bank for Investment and Development of Viet Nam
5	Vietsovpetro JV Enterprise
6	Bank for Foreign Trade of Viet Nam
7	Pouyen Viet Nam Co Ltd
8	Viet Nam Insurance Corporation
9	HCMC Post and Telecommunications
10	Viettel
11	Viet Nam Railway Corporation
12	Thai Nguyen Iron and Steel Co
13	Canon Viet Nam Co Ltd
14	The Corporation for Financing and Promoting Technology
15	Viet Nam Dairy Co.
16	Southern Steel Corporation
17	Viet Nam Mobile Telecom Services Company
18	Tae Kwang Vina Industrial Co Ltd
19	Viet Nam Paper Corporation
20	Fujitsu Viet Nam Computer Products Co Ltd
21	CP Viet Nam Livestock Co Ltd
22	Pouchen Viet Nam
23	Saigon Tobacco Co.
24	Bao Viet Life Insurance
25	Honda Viet Nam Co Ltd
26	Chang Shin Co Ltd
27	Hyundai Vinashin Shipyard Co Ltd
28	Bao Viet Insurance
29	Nidec Tosok Viet Nam Co Ltd
30	Petroleum Technical Services Company
31	Furukawa Automotive Parts Co Ltd
32	Viet Nam Construction Investment Import and Export Holding Corporation
33	Hwa Seung Vina Co Ltd
34	Vedan Viet Nam

35 Yazaki EDS Viet Nam Co Ltd
36 Saigon Tourist Holding Company
37 Dau Tieng Rubber Corp.
38 Viet Tien Garment Co.
39 Saigon Thuong Tin Bank
40 Dong Nai Rubber Co.
41 Viet Nam Airlines
42 Hanoi Public Service and Transportation Co.
43 Tainan Spinning Co Ltd
44 Asia Commercial Bank
45 Yamaha Motor Viet Nam Co Ltd
46 Saigon Beer Alcohol and Beverage Corporation
47 Hoang Thach Cement Co
48 Mabuchi Motor Viet Nam Co Ltd
49 Civil Engineering Construction Corp. No.5
50 Nissei Electric Viet Nam Co Ltd
51 Hualong Corporation Viet Nam
52 Petrolimex B12
53 Viet Nam Southern Food Corporation
54 HCMC Water Supply Co
55 Bim Son Cement Co
56 Khanh Viet Corporation
57 Prudential Viet Nam
58 Metro Cash and Carry Viet Nam
59 Nam Trieu Shipbuilding Company
60 Saigon Newport Co
61 Hanoi Textile and Garment Co
62 Dong Bac Coal Co.
63 Orion-Hanel Picture Tube Co Ltd
64 Cua Ong Coal Selecting Co.
65 Lam Thao Fertilizers and Chemicals Co
66 Petrolimex Region 2
67 Phong Phu Textile Co.
68 Chi Hung Joint Venture Co.
69 Thanh Le Commercial Import Export Co
70 Industrial and Commercial Bank of Viet Nam
71 Nha Be Garment Co.
72 Dona Pacific Viet Nam Co Ltd
73 Viet Nam Manufacturing and Export Processing Co Ltd
74 Nam Viet Co Ltd
75 Binh Long Rubber Co
76 Kim Anh Co Ltd
77 Development Investment Construction Corp.
78 Formosa Viet Nam Co Ltd
79 Construction Company No. 1
80 Sumitomo Bakelite Viet Nam Co Ltd
81 Viet Nam Ocean Shipping Co
82 PetroVietnam Gas Company
83 Southern Airport Authority
84 Construction Company No. 319
85 Bai Bang Paper Co
86 Noi Dia Coal Co Ltd
87 Phuoc Hoa Rubber Co
88 Lever Viet Nam JVC
89 Dona Victor Moulds MFG Co
90 Phu Rieng Rubber Co
91 Ha Long Shipyard
92 Bach Dang Shipyard
93 Thanh Cong Textile Co.
94 Samyang Viet Nam Co Ltd

95 Petrolimex Region 1
96 Intimex Import Export Co
97 Quang Ngai Sugar Corp.
98 Viet Nam Acecook Co Ltd
99 Viet Nam Sea Transport and Chartering Co
100 Southern Rubber Industry Co
101 Saigon Passenger Railway Transportation Co.
102 Kinh Do JSC
103 Saigon Co.opMart
104 Civil Engineering Construction Corp. No.1
105 Tan Mai Paper Co.
106 Ut Xi Aquatic Products Processing Co. Ltd.
107 Bao Minh Co
108 Cai Lan Oil and Fats Industries Co Ltd
109 Can Tho Agricultural and Animal Products Company
110 Uni President Viet Nam Co Ltd
111 Ha Bac Nitrogen Fertilizers and Chemical Co
112 Northern Airports Authority
113 Dona Orion Viet Nam Co Ltd
114 Binh Duong Trading Investment and Development Corporation
115 Cao Son Coal Co.
116 Uong Bi Coal Co.
117 Ha Tu Coal Co.
118 Saigon Port
119 Hanoi General Production and Import-Export Company
120 Viet Nam Glass and Ceramics for Construction Corp.
121 Ha Tien Cement Co No.1
122 Thai Binh Co Ltd.
123 Machino Auto Parts Co Ltd
124 Phu Yen Material Company
125 Viet Nam Air Petrol Co
126 Seaprodex Danang Co
127 Scancom Viet Nam Co Ltd
128 Vissan Import Export Corporation
129 Saigon Agriculture Corporation
130 Can Tho Sea Product Processing Export Enterprise
131 Hai Phong Port
132 Yazaki Haiphong Viet Nam Co Ltd
133 Saigon Post and Telecommunication JSC
134 Vang Danh Coal Co.
135 PetroVietnam Fertilizer and Chemicals Co.
136 Nui Beo Coal Co.
137 Chutex International Co Ltd
138 Phy My Hung Joint Venture Co.
139 Sumi-Hanel Electronics Co.
140 Construction Company No. 4
141 Technological and Commercial Joint Stock Bank
142 Theodore Alexander Co Ltd
143 Dutch Lady Viet Nam
144 Industrial Explosive Material Company
145 Freetrend Industrial Viet Nam Co Ltd
146 Holcim Viet Nam Ltd.
147 Viet Nam Export Import Commercial Joint Stock Bank
148 Company No. 28
149 Green River Wood and Lumber Viet Nam Co Ltd
150 Eastern Asia Commercial Bank
151 Coc 6 Coal Co.
152 Triumph International Viet Nam Co Ltd
153 Always Co Ltd
154 Ha Tien Cement Co No.2

155 Ha Long Coal Co.
156 But Son Cement Co
157 Nam Dinh Textile Co
158 Binh Duong Production and Import Export Co.
159 Proconco Producing Animal Feeds JVC
160 Southern Fertilizers Co
161 Hanoi Trade Corporation
162 Ca Mau Frozen Seafood Processing Import Export Corp.
163 Pangrim Neotex Co Ltd
164 An Giang Agriculture and Foods Import Export Co.
165 Hoang Gia Cat Tuong Co. Ltd
166 Northern Foodstuff Co
167 Mao Khe Coal Co.
168 Hoang Mai Cement Co
169 Kingmaker Footwear Viet Nam Co Ltd
170 Saigon Transportation Mechanical Corporation
171 Minh Quy Aquatic Products Processing Co Ltd.
172 Tin Nghia Import Export Co
173 Viet Nam Apatite Company
174 Thang Loi Textile and Garment Co
175 Viet Nam Northern Food Corporation
176 Toyota Viet Nam
177 Viet Nam International Bank
178 Dong Nai Agricultural Products and Food Processing Import Export Co
179 Thanh An Corporation
180 Viet Nam Construction and Import Export Corporation
181 Phuong Nam Joint Stock Commercial Bank
182 Deo Nai Coal Co.
183 Ninh Thuan Agricultural Products Export Co.
184 Viet Thang Textile Co.
185 Phu Nhuan Jewelry Joint Stock Company
186 Water Electrical Mechanical Installation and Construction Joint Stock Co
187 Viet Nam Industrial Construction Corporation
188 Electrical Mechanical Appliances and Technology Development Company Co
189 Aquatic food trading Company
190 Sanyo Viet Nam Home Appliances ASEAN
191 Lam Son Sugar Joint Stock Corporation
192 Binh Tien Consumer Goods Production Co. Ltd.
193 LG Electronics Viet Nam Co Ltd
194 Ajinomoto Viet Nam Co Ltd
195 Petec Trading and Investment Corporation
196 Cai Doi Vam Import Export Company
197 Danang Rubber Co
198 Grobest Industrial Viet Nam Co Ltd
199 Minh Phu Seafood Import Export Co.
200 Loc Ninh Rubber Co.

Annex 2: **The Viet Nam Domestic Top 200**

Rank	English Name	Abbreviation
1	Bank for Agriculture and Rural Development	AGRIBANK
2	Viet Nam Post and Telecommunications Corporation	VNPT
3	Electricity of Viet Nam	EVN
4	Bank for Investment and Development of Viet Nam	BIDV
5	Vietsovpetro JV Enterprise	VIETSOVPETRO
6	Bank for Foreign Trade of Viet Nam	VIETCOMBANK
7	Viet Nam Insurance Corporation	BAOVIET
8	HCMC Post and Telecommunications	
9	Viettel	VIETTEL
10	Viet Nam Railway Corporation	VNR
11	Thai Nguyen Iron and Steel Co	TISCO
12	The Corporation for Financing and Promoting Technology	FPT
13	Viet Nam Dairy Co.	VINAMILK
14	Southern Steel Corporation	SSC
15	Viet Nam Mobile Telecom Services Company	VMS
16	Viet Nam Paper Corporation	VINAPIMEX
17	Saigon Tobacco Co.	VINATABA SAIGON
18	Bao Viet Life Insurance	BAO VIET LIFE
19	Honda Viet Nam Co Ltd	HONDA VIETNAM
20	Hyundai Vinashin Shipyard Co Ltd	HVS
21	Bao Viet Insurance	
22	Petroleum Technical Services Company	PTSC
23	Viet Nam Construction Investment Import and Export Holding Corporation	CONSTREXIM HOLDINGS
24	Saigon Tourist Holding Company	SAIGON TOURIST
25	Viet Tien Garment Co.	VTEC
26	Saigon Thuong Tin Bank	SACOMBANK
27	Dau Tieng Rubber Corp.	
28	Viet Nam Airlines	VIETNAM AIRLINES
29	Hanoi Public Service and Transportation Co.	TRANSERCO
30	Dong Nai Rubber Co.	DONARUCO
31	Asia Commercial Bank	ACB
32	Saigon Beer Alcohol and Beverage Corporation	SABECO
33	Yamaha Motor Viet Nam Co Ltd	YAMAHA VIETNAM
34	Hoang Thach Cement Co	

Rank	English Name	Abbreviation
35	Petrolimex B12	PETROLIMEX B12
36	Viet Nam Southern Food Corporation	VINAFOOD 2
37	Khanh Viet Corporation	
38	Bim Son Cement Co	BCC
39	Civil Engineering Construction Corp. No.5	CIENCO 5
40	HCMC Water Supply Co	
41	Nam Trieu Shipbuilding Company	
42	Hanoi Textile and Garment Co	HANOSIMEX
43	Orion-Hanel Picture Tube Co Ltd	OHPT
44	Dong Bac Coal Co.	NECO
45	Saigon Newport Co	SNP
46	Cua Ong Coal Selecting Co.	
47	Lam Thao Fertilizers and Chemicals Co	LAFCHEMCO
48	Petrolimex Region 2	PETROLIMEX SAIGON
49	Phong Phu Textile Co.	PHONGPHU TEXCO
50	Thanh Le Commercial Import Export Co	THALEXIM
51	Chi Hung Joint Venture Co.	
52	Nha Be Garment Co.	NHABECO
53	Industrial and Commercial Bank of Viet Nam	INCOMBANK
54	Development Investment Construction Corp.	DIC
55	Nam Viet Co Ltd	NAVICO
56	Kim Anh Co Ltd	
57	Binh Long Rubber Co	
58	PetroVietnam Gas Company	PVGAS
59	Viet Nam Ocean Shipping Co	VOSCO
60	Construction Company No. 1	
61	Southern Airport Authority	SAA
62	Bai Bang Paper Co	BAPACO
63	Construction Company No. 319	
64	Lever Viet Nam JVC	UNILEVER VIETNAM
65	Noi Dia Coal Co Ltd	
66	Phuoc Hoa Rubber Co	
67	Phu Rieng Rubber Co	
68	Ha Long Shipyard	
69	Bach Dang Shipyard	
70	Petrolimex Region 1	PETROLIMEX HANOI
71	Intimex Import Export Co	INTIMEX
72	Thanh Cong Textile Co.	T.CTEX
73	Quang Ngai Sugar Corp.	
74	Viet Nam Sea Transport and Chartering Co	VITRANSCHART
75	Saigon Co.opMart	
76	Southern Rubber Industry Co	CASUMINA
77	Saigon Passenger Railway Transportation Co.	
78	Kinh Do JSC	KIDOCO
79	Civil Engineering Construction Corp. No.1	CIENCO 1
80	Tan Mai Paper Co.	
81	Cai Lan Oil and Fats Industries Co Ltd	CALOFIC
82	Bao Minh Co	BAO MINH
83	Ut Xi Aquatic Products Processing Co. Ltd.	
84	Ha Bac Nitrogen Fertilizers and Chemical Co	HANICHEMCO
85	Can Tho Agricultural and Animal Products Company	CATACO
86	Northern Airports Authority	NAA
87	Cao Son Coal Co.	
88	Binh Duong Trading Investment and Development Corporation	BECAMEX IDC
89	Saigon Port	CSG
90	Ha Tu Coal Co.	
91	Viet Nam Glass and Ceramics for Construction Corp.	VIGLACERA
92	Uong Bi Coal Co.	

Rank	English Name	Abbreviation
93	Hanoi General Production and Import-Export Company	HAPROSIMEX
94	Ha Tien Cement Co No.1	
95	Machino Auto Parts Co Ltd	MAP
96	Viet Nam Air Petrol Co	VINAPCO
97	Phu Yen Material Company	PYGEMACO
98	PetroVietnam Fertilizer and Chemicals Co.	PVFCCo
99	Seaprodex Danang Co	SEAPRODEX DANANG
100	Vissan Import Export Corporation	VISSAN
101	Phy My Hung Joint Venture Co.	
102	Thai Binh Co Ltd.	
103	Can Tho Sea Product Processing Export Enterprise	
104	Saigon Post and Telecommunication JSC	SPT
105	Saigon Agriculture Corporation	
106	Hai Phong Port	
107	Vang Danh Coal Co.	
108	Nui Beo Coal Co.	
109	Technological and Commercial Joint Stock Bank	TECHCOMBANK
110	Holcim Viet Nam Ltd.	
111	Sumi-Hanel Electronics Co.	
112	Dutch Lady Viet Nam	
113	Viet Nam Export Import Commercial Joint Stock Bank	VIETNAM EXIMBANK
114	Industrial Explosive Material Company	VIMICCO
115	Construction Company No. 4	
116	Eastern Asia Commercial Bank	
117	Proconco Producing Animal Feeds JVC	PROCONCO
118	Coc 6 Coal Co.	
119	But Son Cement Co	
120	Company No. 28	AGTEX
121	Ha Tien Cement Co No.2	
122	Southern Fertilizers Co	SFC
123	Ha Long Coal Co.	
124	Binh Duong Production and Import Export Co.	PROTRADE
125	Nam Dinh Textile Co	NATEXCO
126	Ca Mau Frozen Seafood Processing Import Export Corp.	CAMIMEX
127	Hanoi Trade Corporation	HAPRO
128	Hoang Mai Cement Co	
129	Saigon Transportation Mechanical Corporation	SAMCO
130	Northern Foodstuff Co	FONEXIM
131	An Giang Agriculture and Foods Import Export Co.	AFIEXCO
132	Toyota Viet Nam	TOYOTA VIETNAM
133	Viet Nam Northern Food Corporation	VINAFOOD 1
134	Minh Quy Aquatic Products Processing Co Ltd.	
135	Mao Khe Coal Co.	
136	Tin Nghia Import Export Co	TIMEX CO
137	Viet Nam International Bank	VIBank
138	Hoang Gia Cat Tuong Co. Ltd	
139	Viet Nam Construction and Import Export Corporation	VINACONEX
140	Viet Nam Apatite Company	VINAAPCO
141	Phuong Nam Joint Stock Commercial Bank	
142	Thang Loi Textile and Garment Co	VITEXIM
143	Phu Nhuan Jewelry Joint Stock Company	
144	Ninh Thuan Agricultural Products Export Co.	
145	Dong Nai Agricultural Products and Food Processing Import Export Co	DONAFOODS
146	Deo Nai Coal Co.	
147	Petec Trading and Investment Corporation	PETEC
148	Viet Nam Industrial Construction Corporation	VINAINCON
149	Thanh An Corporation	

Rank	English Name	Abbreviation
150	Electrical Mechanical Appliances and Technology Development Company	GELIMEX
151	Viet Thang Textile Co.	VICOTEX
152	Aquatic Food Trading Company	APT CO
153	Water Electrical Mechanical Installation and Construction Joint Stock Co	COWAELMIC
154	Lam Son Sugar JSC	LASUCO
155	Minh Phu Seafood Import Export Co.	
156	Cai Doi Vam Import Export Company	CADOVIMEX
157	Hanoi Beer Alcohol and Beverage Corporation	HABECO
158	Binh Tien Consumer Goods Production Co. Ltd.	BITIS
159	Danang Rubber Co	DRC
160	Loc Ninh Rubber Co.	
161	Southern Airport Services Co	SASCO
162	Hanoi Clean Water Company	
163	Saigon Petro Co	SAIGON PETRO
164	Dong Phu Rubber Co.	
165	Thang Long Metal Ltd.	
166	HCMC Urban Environment Co	
167	Chinfon Haiphong Cement Co.	CHC
168	1-5 Automobile Mechanics Co.	
169	Pha Rung Shipyard	
170	Dak Lak Rubber Co.	DAKRUCO
171	Ba Ria Rubber Co.	BRC
172	Saigon Culture Company	
173	Viet Nam Automobile Component Manufacturing Company	VAP
174	Power Construction Engineering Company No. 1	PCC1
175	Sao Vang Rubber Co	SRC
176	Power Engineering Consulting Company No. 1	
177	Ba Ria - Vung Tau Post and Telecommunications	
178	Viet Nam Food Production Company	VIFON
179	Duong Huy Coal Co.	
180	Dong Thap Import Export Trading Co	DOCIMEXCO
181	Viet Nam National Tea Corporation	VINATEA
182	Hai Phong Cement Co	
183	Viet Nam Electric Wire and Cable Corporation	CADIVI
184	Production Service Import Export Co.	
185	Viet Foods Co Ltd	VIET FOODS
186	An Giang Seafood Import Export JSCo.	AGIFISH
187	Nha Trang Textile Co.	NHATEXCO
188	Housing and Urban Development Corporation	HUD
189	Song Da Co. No. 9	
190	Viet Nam National Shipping Lines	VINALINES
191	Song Da Co. No. 10	
192	Garment Company No. 10	GARCO 10
193	Construction and Investment Development Co	INVESCO
194	Viet Nam National Textile and Garment Corporation	VINATEX
195	Ben Thanh Tobacco Co	
196	Civil Engineering Construction Co. No.568	
197	Hon Gai Coal Selecting Co.	
198	Communication and Transportation Construction Company	
199	Hoa Phat Steel JSC	
200	Viet Nam Joint Stock Commercial Bank for Private Enterprises	VPBank

Annex 3: **The Top 200 and Domestic Top 200 Compared**

The Domestic Top 200 list was generated to focus on Vietnamese firms. The list is based on the Top 200 but the forty-one 100 percent foreign firms are excluded. Joint ventures remain. Of the 41 new firms, 34 are state firms, five are private and two are JVs. Four of the five private firms are in the manufacturing sector, two of which are fish processing companies.

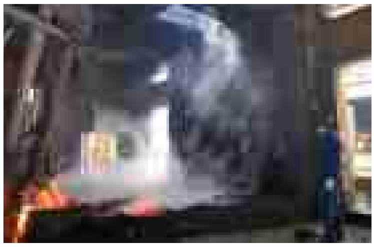
Table 5: Change in Sector of the 41 firms Top 200 and Domestic Top 200[28]

Sector		100% foreign (-)	VN (+)	net change
A	Agriculture, forestry and related service activities	-	4	4
C	Mining and quarrying	-	2	2
D	Manufacturing	39	16	-23
E	Electricity, gas and water supply	-	1	1
F	Construction	-	6	6
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	1	5	4
I	Transport, storage and communications	-	2	2
J	Finance, credit	1	1	0
L	Real estate, renting and business activities	-	3	3
T	Services for individuals and community	-	1	1

Table 5 indicates the changes in sectors between the 100 percent foreign firms dropped from the Top 200 and the new Vietnamese firms entering the list. The net negative impact on manufacturing is immediately apparent. Nearly all of the foreign firms are in the manufacturing sector. Only 18 of the incoming Vietnamese firms are in manufacturing, resulting in a shift of the Domestic Top 200 towards natural resource and service sectors.

[28] Viet Nam Standard Industrial Classification (VSIC) sectors and sub-sectors are based on the International Standard Industrial Classification (ISIC) revision 3.






Annex 4: **Additional Tables**

Table 6: VSIC Sectors

VSIC Sector	Description
A	Agriculture, forestry and related service activities
B	Fishing
C	Mining and quarrying
D	Manufacturing
E	Electricity, gas and water supply
F	Construction
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods
H	Hotels and restaurants
I	Transport, storage and communications
J	Finance, credit
K	Science and technology activities
L	Real estate, renting and business activities
M	Public administration and defence; compulsory social security
N	Education and training
O	Health and social work
P	Recreational, cultural and sporting activities
Q	Activities of party, social unions and associations
T*	Services for individuals and community
U	Private households with employed persons
V	Extra-territorial organisations and bodies

* not clear why jumps from Q to T

Table 7: Ownership Type Categories

Ownership Type
state
central SOE
local SOE
central state LLC
local state LLC
JSC, LLC > 50% state capital
private
cooperative
private
partnership
private LLC, LLC < 50% state capital
JSC no state capital
JSC $\leq$ 50% state capital
foreign
100% foreign
JV state and foreign
JV non-state and foreign

SOE: state owned enterprise
JSC: joint stock company
LLC: limited liability company
JV: joint venture

Annex 5: **Reform of General Corporations**

The GC silos are now breaking down. The breakdown in silos is part of the larger process of international integration and SOE reform. According to the 2005 Enterprise Law, all state firms will be transformed into companies under its jurisdiction (rather than the 2003 SOE Law) by 2010. This process is an extension of equitisation to all state firms, including GCs.[29] State corporations are transforming into economic groups, holding companies and parent-child corporations. Member companies are becoming joint stock and limited liability companies and at the same time equitising their own member units. It is a period of rapid change involving some of the largest organisations in Viet Nam.

Earlier transformations, such as the shift from enterprise unions to general corporations, did not result in much restructuring. The unions were quite similar to the GCs and the head of the organisation had a similar function. To some extent this also applies to this newest round of SOE reform, with some important differences. First, several GC member companies reported that equitisation of their business units was an opportunity to divest those units they did not want or did not think would be viable businesses. Member companies do not intend to hold majority shares in these transformed units. Organisational rationalisation through equitisation provides an opportunity for GC members to shed loss making units, improve efficiency and increase competitiveness.

Second, equitisation of member companies and corporations is resulting in disintegration of some GCs. Members are being equitised and many now have less than 50 percent GC (state) ownership. Corporations are losing controlling stakes in their member companies and becoming, as one member company manager said, 'just another shareholder.' The ability of the GC parent company to influence these members is severely diminished, calling into question the meaning of 'corporation' and 'member company'. It is not clear how this will be different from a joint stock company which has investments in other firms. This atomisation, or breaking apart, is occurring in a range of GCs, and is being extended to more GCs in more sectors.

[29] UNDP (2006a) provides more information and background on SOE reform.

For example, in 2005 Vinapaco began the process of conversion to the parent-child model corporation, including equitising its member companies. It absorbed its largest member, Bai Bang Paper.[30] When interviewed, Vinapaco indicated that it planned to hold majority share in its equitised members to continuing playing an 'important role.' However, it has already lost controlling share in several member companies through divesting state capital in equity offerings. Vinapaco receives the proceeds from these sales and uses them for investment. By 2010, all its members and Vinapaco itself will be equitised.[31] If it does not retain majority share in its members then the corporation will not exist, except as 'just another shareholder.' Instead, there will only be joint stock companies perhaps participating in an industry association.

A similar story applies for the Hanoi Textile and Garment Company (Hanosimex). As Vinatex becomes an economic group, Hanosimex, Phong Phu and Viet Tien are becoming parent-child corporations within the group. Hanosimex is in the process of equitising its member units but does not plan to hold majority share because 'the common trend is to reduce state capital.' The Hanosimex head office will continue to act as parent and support its joint stock companies through provision of capital, loan guarantees and allocation of orders. However, in two or three years Hanosimex estimates that its joint stock companies will have enough capacity to operate independently, something which Hanosimex is promoting. Since it does not plan to hold majority share, Hanosimex will be 'just another shareholder' in these independent companies. The future plan for Hanosimex is uncertain but could follow the Vinapaco role, with the head office merging with the largest factory.

Vinatex Group intends to hold majority share in its three parent-child corporations. One member said that this was to prevent the corporations from exiting textiles and garments. The interviewee provided an example of another Vinatex member with less than majority Vinatex share that is moving entirely into real estate.

The website of one Vinatex corporation reports that although Vinatex will not sell its state share it will issue new shares to strategic shareholders. This could result in its share falling below majority. Either way, these large Vinatex members have been and will continue to be relatively autonomous, reflecting a trend seen in several other state corporations. Vinatex itself indicated this, describing itself as a 'trading company focused on textiles and garments.'[32] It is developing its own clothing supermarket retail chain with 38 locations around Viet Nam. Vinatex's fashion design and trading unit places orders with companies, including member firms, and manages the supermarkets. It will also design higher quality products for future higher quality retail stores. The large independent corporations under Vinatex pursue their own strategies and secure their own financing. While relying in some cases on distribution through the Vinatex supermarkets, they are also establishing their own independent outlets both in Viet Nam and overseas.[33]

New share offerings rather than equtising existing state capital is, as just discussed, one way for the state share to fall below majority. If the state or state corporation does not increase its investment in the firm, then the increase in charter capital reduces its share. The state and GC do retain one element of control: the ability to veto plans when still majority owner. In January 2007 Vinamilk issued new equity that resulted in

[30] In the 2006 enterprise survey (covering the year 2005) Bai Bang Paper is still an independent accounting unit. When interviewed in January 2007, Vinapaco reported that Bai Bang had merged with the head office.

[31] Proceeds from the equitisation of the whole corporation will go to the government.

[32] Vinatex is also classified as a trading company in the enterprise survey.

[33] Another result of atomisation is the breakdown in geographic segmentation of markets for GC members. Competition amongst member firms in all markets, domestic and to a lesser extent foreign, is increasing.

Box 23: The Parent Trap

If a general corporation holds majority share in its member company then it appoints the senior management of the member firm (UNDP 2006a). This made for interesting conversation with member firms about their relationship to the parent company. One firm in which the parent held 51 percent said that they 'cannot object to this or they will die.'

Another firm, accounting for one-quarter of its corporation's revenues, said 'we are one of the strong members and they [the GC parent] will not let us go easily.' This firm is not in a strategic sector and the parent should not hold majority share. The member has foreign partners ready to invest but they are waiting for the state share to fall below majority because the GC parent 'intervenes too much in business' and can veto plans and decisions that it does not like. According to the firm, the critical constraint on its development was not lack of capital or technology but the need to improve management, which can only be done by reducing the influence of the state parent company. This information was provided by a senior manager appointed by the GC, tasked with representing the interests of the GC in the member company. The manager said that 'for this firm to develop, I need to oppose headquarters.'

the state share dropping below 50 percent. This equity offering was approved by Vinamilk's supervising agency, the Ministry of Industry. Other controlling institutions have not been so forthcoming. Some member companies, particularly large members providing significant portions of GC revenues, are being prevented from raising funds through equity offerings so the GC can maintain control.

Nevertheless, whether through equitising state capital or dilution through new share offerings, some GCs are losing formal control. This could have positive repercussions if the reduction in veto power and (often nominal) influence over members allows for mergers, acquisitions, closures, and sale of assets based on business rationale. Combined with member companies divesting their own underperforming units, this round of rationalisation could lead to improvements in firms' performance. Earlier restructurings included mergers and closures, but firms in particular large relatively better off member companies like those in the Top 200 often were 'requested' to absorb loss making members to prevent job losses. In our interviews many firms reported that they do not want to leave their less profitable core businesses due to a commitment to ensure employment. It is not clear how the competing pressures of employment and rationalisation will be reconciled.

An alternative reform path is command and control, for example in Vinashin and Vinacomin. These economic groups dominate the core business activities of their member companies. Vinacomin members can only sell coal to Vinacomin. All orders that shipyards obtain independently require approval from Vinashin to ensure consistency in costs and quotes. Large member corporations of these groups still have non-core business activities but experience a much higher level of control from above. The head offices are the primary source of orders, particularly overseas contracts, which are then allocated to member companies. They are also an important source of financing and loan guarantees for member companies, although this occurs in most corporations and economic groups. The head offices also exercise a much higher degree of coordination of member company activities. Training and technology also emanate from the top. Vinacomin sends its senior management team to the Michigan Business School in the US and Swinburne University of Technology in Australia. Vinacomin also provides information to members on new technology, which member companies can 'choose' to buy. Based on this newly available technology, Vinacomin increases the output targets and quality standards, reducing the scope for choice. Attached to these targets are the profit rates for the member companies.

The command and control structure stands in stark contrast to the former group of GCs which seem to be dissolving through equitisation. In response to questions about financing shipbuilding, Vinashin remarked that one way would be to equitise members to obtain equity financing. However, it would lose control of the firm and perhaps be unable to implement its plans. Therefore, as Vinashin transforms its member companies they become 100 percent Vinashin (state) owned limited liability companies or majority Vinashin share joint stock companies.

These examples provide possible paths for SOE and GC reform. The impact of reform varies by GC due to differences in terms of history, market share, main business line and training and disposition of top management. There is no one reform process or reform outcome. Nevertheless, equitisation of member companies adds a common dimension.

The proceeds from equitising state capital in member companies provide corporations and economic groups with a new pool of investment funds. EVN bumped up the timetable for equitising its member companies to 2008, two years earlier than planned, to take advantage of favourable stock market conditions. Proceeds from equitisation, along with domestic and international bond issues and domestic and foreign loans will be used to meet the massive investments needed in power infrastructure. These funds will also be used to invest in telecommunications infrastructure, banking, securities, insurance, real estate, ports and 'other areas [we] think will generate profits.' This exemplifies the economic group as diversified business conglomerate and is occurring in most other groups. Economic

Box 24: Geruco as Investor

Land for growing rubber trees is in short supply in Viet Nam. The Viet Nam Rubber Group (Geruco) is moving, along with its member companies, into Laos and Cambodia to establish new plantations. At the same time, it is using profits from rubber sales to invest in a variety of projects and companies. Geruco invests in five main categories: hydroelectric power stations, roads, industrial zones (IZs) and residential areas, cement and infrastructure. Geruco prioritises these categories because demand for electricity is increasing, roads require large amounts of capital and only large firms such as Geruco can afford to invest, IZs and residential areas can be built on existing Geruco land, cement also requires large capital investments so Geruco is well placed and infrastructure investments develop Geruco IZs and residential areas. Participation in investment projects depends on the type of investment with some projects run by Geruco and others as only a minority contributor. Geruco is also an investor in the Viet Nam Steel Corporation and Essar Steel of Singapore hot rolled steel joint venture in Ba Ria Vung Tau and will invest with the Viet Nam National Chemical Corporation (Vinachem) and its member company Danang Rubber (DRC) with a foreign partner in radial tyre production.

Geruco is also trying to buy larger stakes in rubber manufacturing companies, including the three Vinachem members DRC, Southern Rubber Industry Company (Casumina) and Sao Vang Rubber (SRC). Vinachem currently holds majority share. These three companies are large contributors to the corporation and it does not want to let them go.

groups are establishing banks, investment funds and securities subsidiaries while moving further into real estate development, tourism and luxury hotels.

Economic groups are not abandoning core business areas but are aggressively expanding and diversifying. Investments are being made in core and unrelated business areas. Vinacomin is moving into bauxite mining and aluminium production, along with expanding in coal fired power plants. Vinashin is working with Posco of Korea to establish ship steel production facilities. It is also working with Korean and Japanese firms to enter ship design. Vinashin is licensing Wartsila engine technology and establishing a JV to manufacture navigation equipment in an effort to move away from current import and weld activities. Vinashin also recently received a loan to build a brewery. PetroVietnam is moving into refining, petrol stations and natural gas power plants while beginning construction on a five star hotel, office and apartment complex.

Given their size and importance to the economy, economic groups are much closer to the state than their member companies. In some cases group investments have a high degree of government involvement while others are driven by the groups themselves. The location decision and delays associated with the Dung Quat oil refinery are the most frequently cited examples of difficulties resulting from state involvement. How state involvement, new sources of financing, core business investment and diversification into unrelated and speculative areas plays out remains to be seen.

Box 25: Vinatex on Risk

Vinatex Group is planning to transform its existing credit unit into a financial investment and trading company. Currently, the unit provides market rate loans to member companies that have difficulties securing financing. In the near future Vinatex will increase the capital in the credit unit and take out loans to invest in the stock market. When asked if they thought this was risky, Vinatex replied 'risk exists everywhere, it's the nature of doing business.'

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