

Solutions to Sustainable Development of Vietnam's Manufacturing Sector

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Abstract: The manufacturing sector is playing a key role in the economy. It takes a high share of Vietnam's total GDP. Over the past 10 years, the sector's output value increased 14.2% annually in the 1991-2003 period. However, based on quality and intensity of development, Vietnam's industry has remained many problems to be solved for its sustainable expansion in the years to come.

The manufacturing sector usually indicates economic strength of a nation; in Vietnam manufacturing and construction represent nearly 40% of GDP and they are changing fast in the trend of industrialization and modernization. In the past 10 years, the industrial production increased 14.2% annually in the 1991-2003 period. Its rapid development has made positive contributions to the country's GDP growth in the past years. The share of manufacturing and construction in Vietnam's GDP was higher than 49% in 2000-2003.

In addition to rapid growth, the manufacturing sector has also recorded other achievements. It played an important part in attracting investment capital to the economy; there were more than 80% of investment projects involved in industry in 2003, accounting for 25% of total investment capital of the economy. Labor in the manufacturing sector represents 52.4% of the total because the sector's fast expansion has offered a lot of jobs to thousands of workers. More important is the competitiveness of manufacturing businesses has been boosted significantly in the past years.

Table 1: Share of sectors in Vietnam's GDP from 2001 to 2003 (%)

Sector	2001		2002		2003	
	Growth	Share	Growth	Share	Growth	Share
Industry and construction	3.68	53.4	3.45	3.86	3.86	53.3
Agriculture, forestry, fishery	0.69	10.0	0.91	12.9	0.7	9.7
Service	2.52	2.68	2.68	38.1	2.68	37.0
Total GDP	6.89	100.0	7.04	100.0	7.24	100.0

Source: *Economic Performance in 2003-2004, Vietnam Economic Times*

Table 2: Growth of industrial production from 1999 to 2003 (%)

Sector	1999	2000	2001	2002	2003	Average
State	7.2	15.2	15.7	14.7	14.7	13.50
Non-state	10.9	19.2	21.5	19.4	18.7	17.94
Foreign-invested	21.0	21.8	12.6	15.1	18.3	17.76
The whole industry	11.6	17.5	14.6	14.8	16.0	14.90

Source: *Economic Performance in 2003-2004, Vietnam Economic Times*

Table 3: Export value of Vietnam's major manufactured goods in 2001-2003

Product	2001	2002	2003	2002/2001		2003/2002	
				(+/-)	(%)	(+/-)	(%)
Crude oil (1,000 tonnes)	16,732	16,897	17,169	165	1	272	2
Clothing (US\$ mil.)	1,975	2,752	3,630	777	39	878	32
Footwear (US\$ mil.)	1,578	1,867	2,225	289	18	358	19
Aquafood (US\$ mil.)	1,816	2,023	2,217	207	11	194	10
Electronic appliances and computers (US\$ mil.)	696	505	686	-191	-27	181	36
Fine art handicraft (US\$ mil.)	300	331	367	31	10	36	11
Coal (1,000 tonnes)	4,292	6,049	7,049	1,757	41	1,000	17
Woodwork (US\$ mil.)	324	436	563	112	35	127	29
Electric wire and cable (US\$ mil.)	181	186	290	5	3	104	56
Plastic goods (US\$ mil.)	120	153	175	33	28	22	14
Bicycles and parts (US\$ mil.)	129	124	155	-5	-4	31	25

Source: *Economic Performance in 2003-2004, Vietnam Economic Times*

Table 4: Ratio of export value by product in 2001-2003

Sector	Ratio (%)		
	2001	2002	2003
Mining	34.9	31.2	30.9
Manufacturing and handicraft	35.7	38.3	40.0
Farming, forestry	17.3	18.4	17.9
Aquaculture	12.1	12.1	11.2
Total	100	100	100

Source: *Economic Performance in 2003-2004, Vietnam Economic Times*

Table 5: Import value of Vietnam's industry in 2001-2003

Product	2001	2002	2003	2002/2001		2003/2002	
				(+/-)	(%)	(+/-)	(%)
Petroleum (1,000 tonnes)	9,083	9,970	9,841	887	10	-129	-1
Steel (1,000 tonnes)	3,870	4,951	4,543	1,081	28	-408	-8
Materials of clothing and leather (US\$ mil.)	1,589	1,711	2,039	122	8	328	19
Plastics (1,000 tonnes)	551	907	978	356	65	71	8
Textile fiber (1,000 tonnes)	211	265	214	54	26	-51	-19%
Cotton (1,000 tonnes)	98	97	88	-1	-1	-9	-9%

Source: *Economic Performance in 2003-2004, Vietnam Economic Times*

Many local companies possess renowned trade names and trademarks

with products winning local customers' confidence and being exported in

large amounts, for example, Vinamilk, Kinh Đô, Việt Tiến, Pinaeo,

Casumina, Saigon Beer, etc. The sector also produced import substitutes including electronic appliances, computers, medicine, and food...; these commodities are sold well and exported to foreign markets.

Obviously, the manufacturing sector is playing an extremely important role in Vietnam's economic development, so to make a long-term development strategy for the sector is a must. The sector's shortcomings and obstacles, therefore, should be analyzed and overcome for its sustainable development. At present, most of manufacturing businesses cluster in focal economic regions, including south-east region accounting for 33.4%, Hồng River Delta 25.4%, and south-west 17.3% but the percentage is low in other regions, for example, southern central region 7.3%, northern central region 6%, north-east 5.9%, the Central Highlands 3.4%, north-west 1%. The geographical distribution of manufacturing companies is not even, leading to a lot of negative effects on socio-economic activities. This is proved by such events as fast increase of immigrants, high pressure of residence for workers, high inflation in house prices, traffic congestion, urban pollution, etc. due to the concentration of manufacturing businesses in big cities including Hà Nội and HCMC. In the meantime, workers are still moving to focal economic regions to seek jobs. Local resources such as electricity, water, land, forest and sea as well as infrastructures including industrial parks and ports are not effectively exploited. As a result, there is a big gap in development between localities. In recent years, the Government and provincial authorities have made great efforts to boost local industry by setting up industrial parks including

Table 6: Performance of manufacturing businesses from 2000 to 2002

Indicator	Unit	2000	2002	Different	
				(+/-)	(%)
Net sales	VND bil.	315,136	457,975	142,839	45.33
Before-tax profit	VND bil.	30,191	41,584	11,393	37.74
Number of businesses		10,938	15,858	4,920	44.98
Workers	1,000 persons	1,822.7	2,440.7	618	33.91
Total assets	VND bil.	353,161	493,248	140,087	39.67
Fixed assets	VND bil.	212,401	272,073	59,672	28.09
Tax and payments to the Treasury	VND bil.	36,682	58,994	22,312	60.83
Sales/Total assets		0.89	0.93	0.04	4.49
Profits/Total assets		0.085	0.084		

Source: Economic Performance in 2003-2004, Vietnam Economic Times

Dung Quất in Quảng Ngãi, Phú Tài in Quy Nhơn, Liên Chiểu in Đà Nẵng...These industrial parks' area has not yet been fully occupied. Therefore, local authorities are required to speed up the planning and construction of their industrial parks, and evaluate exactly their local potentials and advantages. In fact, the provinces of central regions have great advantages in intensifying industries of woodwork, shipbuilding, aquafood processing; northeastern and northwestern provinces also obtain powers of electricity production, woodwork, steel production...Moreover, local governments should consider their province as a business, so they must build trade name, and market their advantages with the aim to attract investors to their land. In this view, local governments are required to present their images and potentials on mass media, and organize workshops with the attendance of investors to introduce their potentials, policies and investment incentives. The evidence shows those provinces, which performed marketing well, have promoted their investment capital, for example, in 2004, Đà Nẵng attracting US\$1,124.5 million, Quảng Ngãi US\$1,338.2 million, Bình Phước US\$2,023.2 million and provinces of Đồng Tháp, Tiền Giang, Kiên Giang have realized more projects with larger investment capital than those in previous years.

Table 7: Growth of production value and value added of the manufacturing sector from 1994 to 2003

Year	Growth of production value	Growth of value added	Difference
1994	13.7	11.9	1.8
1995	14.5	13.9	0.6
1996	14.2	13.9	0.3
1997	13.8	13.1	0.7
1998	12.5	11.3	1.2
1999	11.6	9.3	2.3
2000	17.5	10.8	6.7
2001	14.6	9.7	4.9
2002	14.8	9.1	5.7
2003	16.0	10.3	5.7
Average	14.32	11.33	

Source: Economic Performance in 2003-2004, Vietnam Economic Times

On the other hand, although the manufacturing sector's annual growth reached 14.9% from 1999 to 2002, the foreign-invested and non-state businesses saw higher increase than that of the state-owned ones; this indicates internal strength and competitiveness of local manufacturing companies remain weak.

As such, to strengthen the capacity of production and competition of state businesses, the Government and ruling ministries are required to positively settle remaining problems concerning policy and mechanism with a view to boosting privatization of state businesses in accordance with the roadmap and list approved by the Government.

In the list of 17 major exports of Vietnam from 2001 to 2003, manufactured products account for 11/17, on the whole, the export value of most of manufactured goods increased over years; this is just a positive sign of Vietnam's industry.

Nevertheless, besides good performance as men-

tioned above, the exportation of manufactured goods still poses a lot of problems. First, it still depends on the mining sector, these products are exported in raw materials, and so their value added is too low. Especially, crude oil accounts for 20% of Vietnam's total export value of 17 major goods, while the country has to import 10,000 tonnes of petroleum and its price has escalated over the past year.

This status quo indicates relevant authorities have to accelerate construction of oil refineries and petrochemical plants, and stimulate investment and production in high value-added industries such as steel, tiles, cement...which make the best advantage of domestic mineral. These tasks are aimed at changing the structure of producing and exporting industrial products, thereby enhancing value added of manufactured items.

The manufacturing sector currently has to import up to 40% input materials for production; those industries having high im-

port volume include clothing, footwear, electronic appliances and computers, woodwork, electricity wire and cable, plastic products, especially clothing, footwear and plastics importing up to 80% of input materials. Moreover, a lot of major exports including clothing, footwear and plastic products are still produced for foreign processing orders. The dependence on foreign parties' material supply and distribution has reduced the sector's value added and competitiveness because manufacturing businesses have no their own brands for development. Some sectors, which may fully tap local materials, like fine art handicraft, aquafood, woodwork... have so far not yet planned the material growing areas with specific area and output. This shows the authorities have not yet implemented appropriate investments for the industry's long-term production and export strategy.

The solution to this problem is those industries including textile and garment, footwear, woodwork, which use a lot of materials from farming, forestry and aquaculture, are required to plan soon the material growing areas. First, the industries and provinces must specify those areas having proper soil and climate for plants and animals, for example: afforestation for wood and bamboo in the northeast, northwest, Central Highlands; growing cotton trees in Ninh Thuận and the Central Highlands; breeding sheep in the Central Highlands, Ninh Thuận, Bình Thuận, northern mountainous area; aquaculture in the central coast and the Mekong Delta. Then, the industries authorities and provincial governments have to devise detailed plans of planting, breeding and exploiting, and specify the annual growing area and output with a view to es-

tablishing material producing areas in the long term for industrial production. In respect of non-farm materials like machinery, equipment, chemicals... the sector has to attract investment flows in establishment of material producing factories which help the sector reduce imports and increase its value added. On the other hand, those businesses, which are processing goods for foreign companies, should pay more attention to development of products with their own brands.

In the two years from 2000 to 2002, the number of manufacturing businesses soared to 4,920 or 44.98%; their sales and profits also faced high growth, for example: sales up by VND142,839 billion (45.33%) and profits up by VND11,393 billion (37.74%). In addition, in this period, they also generated 618,000 new jobs, and increased total asset value to VND140,087 billion. They have innovated their machinery and equipment to enhance product quality. This is proved by the fact that their value of fixed assets has gone up to VND59,672 billion (28.09%). Nevertheless, the performance of manufacturing businesses is too low; their efficiency of using assets was only 0.89 in 2000 and 0.93 in 2002; that is one đồng of assets has created less than one đồng of sales. Moreover, it has not yet been improved significantly, up only by VND0.04 from 2000 to 2002 (4.49%). In respect of return on total assets of manufacturing businesses, it reached only 0.85% in 2000 and 0.84 % in 2002. This shows their business efficiency remained too low.

Manufacturing businesses' low performance is due to two reasons: their poor capability of managing working assets, fixed assets and costs and the

sector's irrational structure. It has invested in industries having low added value such as heavy industry, textile and garment, footwear, leather, etc. As a result, they incur high costs and produce less profit.

The solution to this problem is manufacturing businesses must positively innovate machinery and equipment, improve production process, raise labor productivity and promote the level of management of personnel, finance, and marketing. The sector should give businesses support and advice of management, market, production technology to help them with access to modern technologies and foreign market. Furthermore, the manufacturing sector should rectify its structure and thus encourage investment in industries producing high value added goods and import substitutes including oil refinery, cement, steel as well as industries exploiting domestic resources for export such as aquafood processing, fine art handicraft, and woodwork. The Government should study to reduce telephone fee, prices of electricity and clean water and land rent to reduce input costs for enterprises because these costs are much higher than those in neighboring countries according to JETRO.

Nevertheless, over the past years the manufacturing sector has large corporations involving in various industries and possessing their own reputation and brand, including Vinamilk, Viettronics, Casumina, Saigon Beer, FPT, Việt Tiến, Biti's, etc. Their competitive edges have been sharpened in the local market, but their images have remained blurred in foreign ones. According to statistics, 90% of Vietnamese businesses are of small and medium size; the average value of a manufacturing enterprise's assets is about VND32 bil-

lion. Small size, obsolete technology, and unknown brand are causing bad effects on the country's manufacturing sector in the years to come.

To overcome this situation, the sector is required to map out strategic orientations for different groups of businesses. Large corporations with famous brands should expand to foreign markets by advertising, building distribution networks, and manufacturing goods which satisfy tastes of foreign customers. Small and medium businesses should focus their efforts on improving the production process up to international standard, promoting competitiveness in the domestic market and expanding to foreign markets. Ministries of Trade and of Industry should carry out trade promotion to help businesses with their export by organizing exhibitions, fairs and workshops, and giving export advice and link domestic businesses with foreign exporters. ■

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