

# Measures to Develop Industries in the Western Highlands after the Building of HoChiMinh Road

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**D**ue to geographical features, trans-Vietnam roads are important to the economic development. Up to 2000, the National Route 1A has been the only road of this kind and it couldn't satisfy the need for transport and facilitate the industrial development. In 2005, building of the Hochiminh Road finished its first stage. With this new road, it's necessary to work out measures to develop industries for the Western Highlands.

Statistics from the Ministry of Industry in September 2006 show that there were 14 provinces whose industrial output was worth less than VND1,000 billion and they were included in the list of non-industrialized provinces. Most of them are in the Northern mountainous region, Central Vietnam and Western Highlands.

## 1. Some data about the industrial sector in Western Highlands before the HoChiMinh Road

- Most industrial concerns are of small size (from VND5 to 20 billion). Processing industry accounts for some 55% of industrial output, and over 50% of concerns are in cities and towns.

- Non-public sectors account for 64% - 66% of the industrial output of the highlands.

- Army of managers and researchers is small and has no chance to improve its expertise. There is no first-class expert in this region.

- Laborers are from the agricultural sector, many of them are from minority groups and have no training and ability to absorb new techniques.

- Most manufactured goods for export are farm products. The export market hasn't been expanded in the last five years.

- Industrial goods are of poor quality and sold mostly to the domestic and local markets.

- Development of areas specializing in industrial crops is slow, and quality of raw materials is poor.

- Some traditional guilds have been restored but most of them are in Vietnamese communities and operate as family businesses.

- Most machines and equipment employed by manufacturing companies are obsolete (most of them are at least 30 years old).

- Privatization of state-owned companies is slow. Most state-owned companies suffer losses and poor

performance. The collectivist sector faces shortage of capital and skilled laborers. Development of farms is unruly and unstable. Non-public sectors are small and foreign investment is small.

When the Hochiminh Road is finished, the industrial sector can hardly enjoy some boom because of the shortage of capital and skilled labor. To make the most of the Road, various measures should be taken. The following are our suggestions.

## 2. Macroeconomic measures

- a. Orientation for the industrial sector: According to master plan for industrial development up to 2010, the Western Highlands are included in the zone 4 where priority is given to hydroelectricity, farm products and mineral processing, while two zones adjacent to the Western Highlands - Central Coastal Region (zone 3) and Eastern South (zone 5) - have orientation toward manufacturing industry, petrochemicals, engineering, building materials and clothing, footwear, software and chemicals. The Hochiminh Road connecting those three zones can help economic

growth in the Western Highlands.

- b. Sustainable development: The industrial development in the Western Highlands must be sustainable, that is, satisfying present needs without possibility of using resources for future generations. To achieve this aim, the local authorities should:

- Prevent illegal and unreasonable exploitation and waste of natural resources and limit export of raw materials.

- Take measures to reduce waste of natural resources and energy, and pollution caused by obsolete production lines in use today.

- make the best use of natural resources based on national and international division of labor.

- c. Organization: Local industrial authorities must pay attention to the following organizational problems:

- Perfecting mechanism for gathering statistics needed for timely and exact analyses as a basis for the plan making process.

- Perfecting the development plan for each industry and using them to work out a master plan that can mobilize efforts from all sectors and administrative machinery and all possible resources.

- Providing all sectors with stable mecha-



**Table 1: Assessment of industries by points in the Western Highlands**

	Nece sity	Economic efficiency	Techn -ology	Product	Market	Use of knowle -dge	Comp- etition	Use of resources	Use of labor	Total point
Weights	20%	10%	10%	10%	10%	10%	15%	10%	5%	100%
Food processing	8	9	6	6	5	5	4	8	8	6.5
Wooden products and paper	9	8	7	7	8	6	7	8	8	7.65
Coffee and rubber	9	8	6	7	8	6	7	8	8	7.55
Vegetable processing	9	6	5	5	7	5	5	7	8	6.45
Building materials	9	6	5	6	6	5	6	8	8	6.7
Clothing, footwear	8	7	5	6	6	5	6	5	7	6.25
Electric- electronic appliance	7	7	5	5	5	7	5	4	5	5.7
Pharmaceuticals	8	7	6	7	7	7	6	7	5	6.85
Handicraft	8	8	6	7	6	5	6	6	6	6.6
Hydroelectricity	9	8	8	8	9	8	9	8	7	8.4
Mining	9	7	6	7	7	5	7	9	7	7.3
Chemicals	9	6	6	6	6	6	5	6	5	6.4
Engineering	9	7	5	5	6	5	5	5	6	6.15

Source: Summary of polls among experts in 2006

nisms and business climate and limiting effects caused by changes in economic policies.

- Dealing with obstacles caused by the red tape to the business world, ensuring a level playing ground for all, and exchanging more notes with the business circles to help them develop their operations.

d. Business competitiveness:

- Carrying out trade promotion and building brand names for key industrial products and developing big companies that can operate according to WTO rules.

- Adopting policies to support production of goods of comparative advantages in order to cause breakthroughs in industrial production; and forming commission for selecting goods of comparative advantages.

- Supplying information and advisory services to companies; supporting vocational training and improvements in managerial skills; helping development of new and traditional products; encouraging replacement of facilities and ensuring intellectual property rights.

- Developing rural transport systems including roads and bridges connecting sources of raw materials with factories; and facilitating the building of large-size industrial concerns financed by the central government with a view to making the best use of local resources.

- Studying policies to give support to companies without violating WTO rules.

### 3. Microeconomic measures

a. Selecting prioritized industries: As we know, people in depressed regions usually suffer inferior complex and think their poverty is from poor performance of their current businesses, and decide to quit them. The next thing they do is to do what rich people do. A lot of success and failure stories about this way of thinking. There are numerous causes of failure but the biggest one, in my opinion, is the failure to realize comparative advantages. For a region, identifying industries with comparative advantages may be considered as a precondition for success. By various surveys, I want to suggest here a quantitative solution to identify key industries for the Western Highlands. The solution is based on classifying industries

according to nine indicators, then taking into consideration necessary elements before coming to conclusion. The solution is presented in the following table.

The Table shows that priority could be given to industries with points bigger than 7, such as hydroelectricity (8.4), wooden products and paper (7.65), coffee and rubber (7.55) and mining (7.3). The hydroelectricity, however, requires big investments and moreover, this industry is under direct control of the central government, so provinces in Western Highlands may put their limited resources in the other industries mentioned above. I hope that such products with comparative advantages will improve the industrial sector in the Highlands.



b. Developing communal industrial nodes: At present, local budget is too small to build industrial parks or move all industrial concerns to industrial parks, so establishing communal industrial nodes becomes useful. In the coming years, such nodes could be built along the Hochiminh Road in order to make the best use of advantages of transportation, and attention must be paid the following two problems:

- Production of any goods that could be done well in communes is not necessarily forced to move to the industrial nodes. When the production causes damage to the environment, those concerns must be moved to the industrial nodes. It's necessary to prevent pollution from spreading to new districts.

- Development of industrial nodes at communal level should be appropriate to long-term development strategies and plans to use land and other resources approved by provincial and central governments.

c. Development of the manufacturing industry: Without this industry there is no way to increase the added value of farm products and peasants can only receive from 25% to 35% of the real value, and supply of raw materials to the industry becomes unstable. This industry is essential to the agri-

cultural production, and in its turn, the agriculture becomes a basis for the sustainable development of industry. To achieve this aim, the following measures should be taken:

- Beefing up existing manufacturing factories.

- Building small-sized manufacturing plants in areas producing farm products as raw materials.

- Zoning areas for growing industrial crops and other purposes before deciding the building of manufacturing plants.

- Identifying necessary technologies and products to be made with a view to reducing production of semi-finished goods.

- Building brand names in order to enhance the market value of goods.

d. Technologies:

- With limited resources, the Western Highlands should combine modern technologies with traditional ones and modernize their production lines by degrees to reduce labor-intensive technologies when their laborers are moving to other provinces, and at the same time apply modern technologies to certain industries.

- Giving tax incentives to replacement of technologies and application of international standards to the production lines.

- Increasing the investment in R&D activi-

ties to somewhere between 2% and 5% of their gross product.

e. Standardization of product quality: Over 90% of export earnings for Western Highlands are from non-processed goods with no brand names. This means that producers have failed to standardize their exports with the result that they couldn't improve their income. It's necessary to build standards for their staple goods and apply strict quality control over raw materials supplied by peasants.

f. Industrial labor force: Most zones in Vietnam tend to concentrate on developing labor-intensive industries to create more jobs. The Western Highland had better not follow this direction because its population is distributed on a vast area and most laborers come from rural districts with no vocational training.

- Industrial labor force in 2006 accounted for only 2.17% of the population. There must be policies to encourage the private sector to develop the system of vocational schools in order to double the industrial labor force by 2015 to some 5.4%.

- Financial incentives could be given to managers, technicians and skilled laborers who go to the Western Highlands from other zones and local students who are studying in universities in other provinces.

g. Market:

- In privatization, part of preferred shares must be sold to planters who sell their crops to manufacturing factories in order to establish close relations between crop planters and manufacturing concerns.

- Mineral resources must be estimated and kept well under state control to ensure stable supply of raw materials for the manufacturing sector.

- Western Highlands usually suffer imbalance between the supply and demand because their markets are not expanded in time. They should carry out trade promotion campaigns in other provinces and foreign markets in the coming years.

- Export authorities must support companies that are from other zones and operate in the Highlands, and encourage them to develop their brand names. ■

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