

Combination as a Way to Make the Best Use of Resources of the Central Vietnam

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I. Benefits of economic combination

In their long history, many big centers have come into being in the Central Vietnam. In the past decade, however, process of re-dividing provinces, reform in mechanism for managing economic activities and localism in development strategy have led to a decentralizing trend in this region. When each province tries its best to keep pace with others, influence of centers becomes weaker and they start to lose their strength.

Economic combination is an effort made jointly by two or more parties regardless of their size or ownership. Objective of the combination is to make up for one's weaknesses by making use of others' strengths. This means that the combination may take place among companies of all

sizes regardless of their ownership. Benefits of the combination are numerous and some of them are as follows:

1. Overcoming disadvantages of scales

"Big is not necessarily good," is a common saying and this seemingly humorous is also right for industrial production.

As we know, each company has its own central fields and specialization, and there are a lot of subsidiary operations that the company could not do by itself but they are very important to the corporate business performance. Examples of this situation are numerous. A textile factory has to buy fiber, plastic tubes, bags, ropes, starch, and various spare parts for its weaving machines. An automobile plant should buy numerous parts made of plastic,

iron, rubber, leather or leatherette, and glass, etc. needed for producing a car or motorbike. The company tends to sign contracts with other concerns or suppliers to secure these parts, instead of making them by itself, with a view to cut production cost and make higher profits.

This way of doing business, or outsourcing as it is called, has long made its appearance and become popular in many countries all over the world. To cut some US\$6 billion in production cost a year by 2010, Ford Corporation has decided to double its import of spare parts from China that is estimated at US\$2.5 or 3.0 billion a year.

2. Coping quickly with changes in the market

The combination not only helps companies overcome disadvantages of scale, but also allows them to cope quickly and effectively with changes in the market.

The market demand is changeable, which forces companies to improve quality and design of their goods, and diversify their lines of products. To satisfy the changing market demand, companies should gather information and have ability to launch quickly new production plans. The economic combination helps them to achieve this aim easier.

The combination helps companies distribute their

products more quickly, especially when producers combine with traders (both wholesalers and retailers). In such combinations, traders act as selling agents for producers, thereby distributing goods more quickly and bringing them to a wider market.

In the globalization, such combination is increasingly common in developed countries, especially in the U.S. the combination become 'multinational,' in which many wholesalers and retailers specialized in trading goods from certain producers (called original equipment manufacturer, or OEM) make their appearance. Traders can design these goods and place order to producers or accept goods designed by producers. Many internationally famous goods have been made and sold according to this practice, such as Wilson sportswear, Pierre Cardin garments, Nike sport products, or Microsoft game playing machines, etc.

The combination allows companies get access quickly to new technologies and techniques by cooperating with researchers in universities, institutes, and research centers at home or abroad.

In the reverse direction, changes in the market demand stimulate the combination. In realities, when companies can't cope with changes in the market demand, they have to cooperate with partners in order to secure support in terms of capital and technology, including outsourcing in order to get auxiliary parts or materials needed for their products.

3. Distributing and reducing risks

Developing the production is a constant process that includes accumulation, merger and demerger with a view to satisfying the market demand in a way appropriate to comparative advantages of companies, ensuring possibly highest profits and reducing risks. These efforts are made through combination.



Finding a big business opportunity that is beyond reach of a company, it doesn't want to miss this chance but it has no capacity to carry out the project alone for fear of poor performance and potential losses. To deal with this situation, many companies decide to distribute risks by asking others to take part in the project in which each company undertakes certain task that is most appropriate to its capacity, therefore each participant only faces a part of risk. Moreover, the combination may allow two or more rivals in the same industry or market to share risks caused by unnecessary competition or even to establish some kind of group.

II. Combination in the Central Vietnam

In the Central Vietnam, the combination has made its appearance in various fields and proved successful. There is combining of companies making and assembling automobiles and motorbikes with producers of spare parts, of clothing companies, contractors, or between food processing companies with

peasants. The combination can take form of subcontracts, joint ventures, or partnership established by concerns in the same industry or trade associations. Their combination, however, reveals many shortcomings.

1. Combination hasn't become an urgent need

A recent survey shows that over 50% of company respondents said they had no need for combination; other 30% said they were in need of some kind of combination in order to beef up their production capacity; and 20% said they always had a need for combination to improve their business performance at present and in future.

In a company, the need for combination, if any, exists only in mind of leadership and it hasn't become a matter of interest for the whole staff. Realities from corporate management show that middle managers realized the need for combination earliest. And if they don't raise this question, owners of the company can hardly be aware of it. Moreover, employees tend to ignore regulations set by economic contracts or combination when they fail to understand benefits from the combination with the result that their performance is not high when carrying out business according to these regulations.

In addition, the combination in the Central Vietnam is sometimes carried out according to an administrative decision, as seen in mergers to established state-owned corporation and holding companies with their subsidiaries that are implemented noisily today, with the result that the real performance of the combination is not as high as expected, and it may produce counteractions if no adjustment is made.

2. Business climate is not favorable for combination

As stated above, the combination has long been an effort made by individual companies. The Government has no mechanism or policy to encourage or create favorable condition for the healthy combination.

As for companies, they meet with difficulties when looking for partners to cooperate with because of lack of information, or reliable one, so they can't decide on the combination. If auditing

and supply of information are carried out and published regularly, companies can find their potential partners more effectively.

Most local companies are not in position to engage in the combination because their public image is not good enough to persuade smaller concerns to operate as their satellites. There is only a handful of companies with high performance and capacity, such as SÔNG ĐÀ and LILAMA. Recently, some big groups and corporations in power, mining and clothing industries have come into being, which can help the combination develop better.

With small market shares, especially in foreign market, local companies find it difficult to engage in the combination. After Vietnam's accession to the WTO, we hope that this problem could be solved.

Without a perfect legal infrastructure for the combination, companies have to rely on some regulations set forth by various laws and subordinate legislation that can hardly be applicable because of public mentality molded by a small-size production. This situation is apparent when implementing Decision QĐ 80/TTg by the PM on the combination in production and distribution of farm products.

III. Measures to accelerate the combination in the central Vietnam

1. For the state

- The introduction of the VAT has helped remove the double taxation on raw materials and semi-finished goods, thereby encouraging the combination.

However, this practice is only applied to concerns that use VAT invoices issued by tax agencies, and it seems inapplicable to handicraft or small concerns in rural areas because they usually subcontract production of semi-finished goods to private persons or families who use no VAT invoices and agree to pay sales taxes to local authorities.

To deal with this double taxation, local authorities may either give a tax exemption to these private persons and families who supply raw materials or semi-finished goods to bigger concerns, or cut taxes on concerns that use such raw materials and semi-finished products.

- The combination according to the Decision QĐ 80/TTg didn't produce intended results because it was applied at large scale without discrimination while general knowledge about duties and rights of parties engaging in the combination is very limited. Experience shows that only concerns of large-scale (private or collective farms) carry out their commitments to farm product processing factories.

In the coming years, to make cooperation between four parties (the state, peasant, businesspersons and scientists) more effective, the state should adopt policies to encourage development of large-scale farms (supplying new strains, or building irrigation systems as allowed by WTO rules) in order to create a stable supply of raw materials of good quality to the processing industry. Other policies to allow and encourage any forms of combination

(subcontracting and outsourcing, etc.) in all industries are much needed, including ones to support marketing and trade promotion companies at home and abroad.

2. For companies

- Companies, especially small and medium enterprises, had better get knowledge of benefits from the combination in order to find suitable partners in their fields. It's worth noting that the combination can take place in various activities. Companies can cooperate with each other to exchange technologies, expand a shared market, develop their human resource or form a value chain for certain product.

Disseminating knowledge about benefits from the combination must be done in all departments of a company. It's necessary to remember that middle managers are the most sensitive to the need for combination, and they can persuade company owners to make decision on establishment of combination with partners.

- Companies should enhance their specialization and technologies employed in order to create a favorable position when engaging in the combination. Realities show that good specialization and technological capacity are decisive factors in winning contracts and subcontracts, and developing into OME.

- Besides identifying tasks that requires combination and suitable partners, the company should choose carefully form of combination. Selecting an appropriate form can determine success of the combination. Agreements on the combination must be made

according to rules and laws, in which rights and duties of each party, and methods of settling disputes, must be defined clearly in order to avoid unnecessary losses or waste of time and energy caused by an agreement with many loopholes.

3. For trade associations

- Associations can act as coordinators who identify and encourage combination between their members, especially when they can acquire a contract that is beyond reach of individual concern. This practice can save their members from being forced to enter into a contract at some disadvantage and help them meet requirements posed by major buyers, especially in production of clothing and wooden furniture.

- Associations can encourage their members to place orders to one another in order to develop the first stage of combination.

- Associations, with funds contributed by their members, can launch trade promotion and marketing campaigns or support members in these campaigns.

IV. Other measures at regional level

- A fund for development of combination in the Central Vietnam: This fund may include contributions from local government's budget, local companies, donations from individuals and organizations, and support from the central government. This fund is used for infrastructure projects that have good effects on the economic development of the region, and for scientific researches needed for better employment of local resources.

- More resources should be put

in the task of zoning (and re-zoning) for development of the whole region in order to avoid sectionalism. What should be done now is to carry out an overall examination of comparative advantages of each province in the region, and use its results as a basis for reviewing and adjusting the existing zoning plan in order to make the best use of these advantages.

- Building new mechanism for combining and sharing interests among provinces in order to encourage cooperation and avoid unnecessary competition is an urgent and vital task. If the conflict of interests is not solved properly, no province is ready to sacrifice its interests for the good of the whole region, for example: if all provinces in the Central Vietnam have their own sea ports, no port is profitable because it has no economies of scale and the market is divided into very small shares.

- Inter-provincial communications should be developed. The Central Vietnam has a long shape along the coast and communications are easily prevented by natural disasters. Developing the communications in order to cut transport costs and time should be considered as a top priority. A project to build highways connecting provinces in this region has been approved and supported by all local governments ■

Reference

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