

Local Companies in the International Integration

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1. Role of the government in the integration process

Vietnam is integrating into the world economy by joining global trading organizations, free trade areas, and bilateral and multilateral agreements; and accepting international competition in both foreign and domestic markets. The international integration also means that local companies have to face technical barriers of individual countries. To integrate into the world economy means seeking for the accession to the WTO because it represents 97% of the world trade. As a WTO member, Vietnam can enjoy favorable treatments but it has to ensure equality and transparency for economic activities. What should the government do to support local companies without violating rules of international organizations and markets?

Firstly, the system of laws should be adjusted to international practices. Besides improving the legal infrastructure, the government should accelerate reforms in macroeconomic management, beef up ability of local governments, accept discussions with businesspersons and ensure fair law enforcement.

Secondly, performance of important services; such as telecom, banking, financial, and insurance ones, must be enhanced with a view to facilitating economic activities. In addition, modernization of managerial machinery, specialization of civil servants, rationalization of managerial processes, and improvement in trade promotion by governmental bodies are also problems to deal with.

Thirdly, the government should provide companies with more and full information about changes in economic policies adopted by Vietnam and international trade organizations along with information about the domestic and foreign markets. At present, there is no reliable source of analyzed information and predictions in Vietnam.

Fourthly, reforms in the public sector must be accelerated in order to create favorable conditions for the development of non-public sectors. Various measures could be taken to encourage companies to enter into new markets instead of being limited to major export ones. The government had better allow, and support, the formation of trade associations considering them a supportive force for the business circles.

Finally, overall measures must be taken to improve the competitiveness of industries and compa-

nies, such as identifying strategic and major export markets and key industries; building national and local brand names; applying international standards to production processes; and publicizing official development plans and programs.

These are no easy tasks when Vietnamese economy is still of small scale and poor competition. Vietnam is still in the group of 40 poorest countries (with a personal income of some US\$400 per year on average). Resources controlled by most companies are limited because they are mainly small and medium enterprises. This means that local companies have a long way to go before thinking of expanding in the domestic market and finding a foothold in the foreign ones.

2. Problems facing local companies

a. Business strategy: Working out the business strategy helps companies position themselves and set orientation for their businesses. Companies should identify their goals based on analyses of strengths, weaknesses, opportunities and threats. Strategic analyzing tools will provide companies with quantitative assessments needed for selection and implementation of their strategy in each period. The business strategy also helps improve corporate activities, such as production, marketing management, R&D, accounting, personnel management, and information processing. It's worth noting that the task of building the business strategy and plan to implement it is also the building of integration track.

b. International rules and laws: One of weaknesses of local companies is the lack of knowledge of international rules and laws. Recent lawsuits against local companies and Vietnamese exports show that ability to deal with international legal issues of local companies should be improved as soon as possible. Full attention must be paid to studying rules and laws of potential markets and employing legal consultant services in this period.

c. Intellectual property: Local companies have faced many troubles with the intellectual property when exporting their goods. In reality, the intellectual property includes not only brand names but also patents, industrial designs, know-how, geographical indicators, copyrights, etc. There are three problems local companies should pay attention to now: (1) mastering both national and international rules and laws of the intellectual property

in order to avoid violating them and protect their rights; (2) estimating exactly importance of the intellectual property and protecting their property against violations from rivals; and (3) registering their intellectual property in both existing and potential markets. But local companies should work out plans to build their own brand names and trade marks before thinking of how to protect them.

e. Technical barriers: When integrating into the world economy, companies meet with three barriers: tariff, technical and law-customs ones. The tariff barriers are removed step by step when a country joins international and regional trade organizations. The other two are usually referred as non-tariff barriers. The law-customs can be reduced by degrees as trade grows but the technical ones tend to get higher when companies fail to prepare themselves for the international integration.

In nature, the technical barriers include standards of safety, hygiene, and protection for the environment and consumers; and other factors of sustainable development. These standards or rules are usually applied to developing countries that are trying to enter into developed markets because most developing ones haven't worked out similar standards of their own. Vietnam is also in this group. Statistics show that only 25% of Vietnamese standards match international ones.

Common and compulsory standards that companies should meet are as follows:

- ISO 9001 (2005 version) includes the Quality Management System and Quality Assurance for Internal and External Customers.

- ISO 14001 (2004 version) includes the Environmental Management System.

- OHSAS 18001 (1999 version) introduces the Occupation Health and Safety Assessment Series.

- SA 8000 (2001 version) refers to the Social Accountability.

In addition, each industry has to observe its own standards, such as HACCP, SQF, ISO 22000, GMP, GAP, ISM Code, and FSC, etc.

Governmental bodies responsible for controlling product quality and supporting domestic industries should help companies to reorganize their businesses or production lines in order to meet required standards.

f. Economic cooperation: SMEs that constitute the majority of local companies suffer weaknesses in their managerial skills and size of their investment and production. To cope with pressure from large-scale rivals, they should find ways to establish the economic cooperation.

- Vertical cooperation: This form of cooperation usually comes into existence among companies performing different processes in the production of the

same goods, such as breeding farms, animal farms, food processing factories, processed food exporters; and importers of veterinary medicines and younglings. This cooperation could help expand the size of production and improve the competition of members. Many Japanese and South Korean groups have developed from such cooperation.

- Horizontal cooperation: One of sustainable horizontal cooperation is merger that allows expansion of the size of capital and technology level; improvement in competitive edge; enhancement of public image or increases in the fund for R&D. Of course, this approach in Vietnam requires changes in thinking way, attitudes and behavior in doing business.

Another form of horizontal cooperation that is suitable to local companies is the combining of companies in the same industry. This combination may be of short or long terms and independence of members could be kept intact or preserved to a certain extent, but it should be large enough to carry out long and major projects. If no optimal options are available, SMEs can choose to work as satellites for bigger ones in the same industry. This option is only a temporary one when the company faces the danger of closure and waits for new chances.

The above-mentioned problems are facing all local companies and they have to solve them before it is too late. The changing global economy will certainly pose new and increasingly difficult problems to managers. Those who fail to solve them have to go out of business. ■



Photo by Bui Thanh Tam