

Facts of HCMC Industrial Development

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Over the past years, the HCMC economy has been restructured toward the industry. It can be proved by the change in the sectors' GDP shares: Agriculture down from 5.5% in 1990 to 1.2% in 2005; industry up from 42.3% to 48.2% and service down from 52.2% to 50.6% [3, p.31]. Nevertheless, the HCMC industry remains a lot of inadequacies. The labor-intensive sectors including textile and garment, footwear still take a lion share in the whole industry's production value while hi-tech ones such as mechanical engineering, electronics, telecommunications, information technology made modest contributions to the industry's production value. Therefore, the government is required to devise appropriate policies for the city industrial development in the trend of modernization so that it can make the best use of its advantages for deep and extensive integration in the world and regional economies. The following are some features of the HCMC industrial development over the past years:

* *Facts of growth in the city industrial production value (based on 1994 price):* HCMC is a

favorable home for industrial development, so its industrial production value has risen sharply over the past years. It posted VND66,930 billion in 2001, VND77,021 billion in 2002, VND88,602 billion in 2003, VND101,606 billion in 2004 and VND116,309 billion in 2005, up by 1.73 times as compared to 2001 (based on 1994 fixed price). (See Table 1)

* *Industrial performance by sector:* Each sector in the industry has different growth rates. Non-state and foreign-invested sectors made great contributions to the city industrial expansion while state businesses grew rather slowly and unsteadily, namely 12.2% in 2001, down to 7.3% in 2002, up to 9.4% in 2003 and 13.8% in 2004, but down to 7.8% in 2005 while the city industrial

industry's. Its production value rose 24.1% in 2001, 22.7% in 2002, 19.5% in 2003, 18.1% in 2004 and 15.1% in 2005.

The foreign-invested sector also made good but shaky performance with a rise of 15.1% in 2001, 20.4% in 2002, 18.7% in 2003, 12% in 2004 and remarkably 23.3% in 2005. This sector will see a boom in the time to come due to Vietnam's improved investment climate, and

Table 1: Growth of HCMC's industrial production value from 2001 to 2005

Year	Total	Domestic sector	Including		Foreign-invested sector
			State	Non-state	
Unit: VNDbil. (Based on 1994 price)					
2001	66,930	49,393	30,323	19,069	17,537
2002	77,021	55,913	32,523	23,390	21,108
2003	88,602	63,546	35,596	27,950	25,056
2004	101,606	73,536	40,523	33,012	28,071
2005	116,309	81,690	43,697	37,993	34,619
Growth (%)					
2001	16.2	16.6	12.2	24.3	15.1
2002	15.1	13.2	7.3	22.7	20.4
2003	15	13.7	9.4	19.5	18.7
2004	14.7	15.7	13.8	18.1	12.0
2005	14.5	11.1	7.8	15.1	23.3

Source: HCMC Statistics Bureau, 2005 Statistics Yearbook, p. 71.

Table 1 shows the HCMC industry has recorded high growth rate over the past years: 16.2% in 2001, 15.1% in 2002, 15% in 2003, 14.7% in 2004 and 14.5% in 2005. The growth has slowed down in recent years because the city is restructuring its economy to increase the service sector's share.

growth averaged 14.5% in 2005. This properly reflects the city's policy on reducing the non-state sector's share and promoting the non-state and foreign-invested sectors' contributions.

The non-state industrial sector increased faster than the state one. Its growth rate is higher than the whole

especially the country's successful hosting the APEC Summit and its WTO membership at the end of 2006. (See Table 2)

Table 2 reveals there are different growth rates in the HCMC industries' production value. The mining industry rose slowly and unsteadily: dropping 7.5% in 2001, soaring

Table 2: HCMC's industrial production value by sector from 2001 to 2005

	2001*	2002**	2003**	2004**	2005**
Industrial production value (VND bil.)					
Total:	66,929	77,020	88,601	101,606	116,308
-Mining	56,799	60	107	107	113
-Processing	64,524	74,573	86,509	99,737	114,087
-Manufacture and distribution of electricity and water	2,349	2,387	1,985.8	1,762	2,108
Growth (%)					
The whole industry	16.2	15.1	15	14.7	14.5
-Mining	-7.5	5.8	78.4	0	5.6
-Processing	16.4	15.6	16	15.3	14.4
-Manufacture and distribution of electricity and water	10.8	1.6	-16.8	-11	19.6

Source: (*) HCMC Statistics Bureau, 2005 Statistics Yearbook, p. 74-77.

(**)HCMC Statistics Bureau, 2005 Statistics Year Book, p. 72-75

78.4% in 2003, staying unchanged in 2004 and increasing 5.6% in 2005. The processing industry has a steady growth of 14 -16% per year. The industry manufacturing and distributing electricity also saw fluctuations, slightly up and down in 2002, 2003, and 2004 but significantly increasing 19% in 2005. Nevertheless, the processing industry made up too big proportion (about 98% of the whole industry) and the two remaining ones accounted for only small percentage (2%), so the HCMC industrial development depends mainly on the processing industry. This is logical in the city industrial restructuring and need be enhanced in the following years. (See Table 2)

* The city industrial restructuring based on production technologies: Based on the technological efficiency, the industries can be classified into high, medium and low-tech industries. Hi-tech industries include those manufacturing equipment, machinery, electrical and electronic equipment, precise equipment, automobiles, motorbikes, etc. Medium-tech industries produce coal, oil, chemicals, rubber, plastic, metal products (excluding machinery and equipment), and non-metal minerals. Low-tech industries are the rest. The city industry has been well restructured over the past years. Hi-tech industries are increasing while medium and low-tech ones reducing.

Based on the above criteria, the production value of the city hi-tech industries registered VND913,889 million in 2001 (1994 price), accounting for 13.41% of the total GDP generated by the city industry, low-tech industries VND 1,167,556 million, or 17.14% and low-tech industries VND4,730,406 million, or 69.45% (These figures are calculated from data in pages 74 and 75 - the HCMC Statistics Bureau's Yearbook). The production value of hi-tech industries notched up

VND18,383,985 million in 2005 (based on 1994 price), representing 15.81% of the city industrial GDP, up 3.4% as compared to 2001; medium-tech industries VND36,963,763 million, or 31.78%, up 14.64% and low industries VND60,960,924 million, or 52.41%, down 17.04% against 2001. (These figures are calculated from data in pages 72 and 73 - the HCMC Statistics Bureau's Yearbook).

* As for the number of industrial businesses: The city's industrial businesses are steadily on the rise over years. The city accommodated 28,698 businesses in 2001, including 229 state entities (114 ruled by central government and 115 under the local government). The non-state sector has 28,041 businesses, including 26,123 individual units and 428 foreign-invested establishments.

By 2005 the whole city was home to 37,878 entities, including 217 state entities (113 belonging to central au-

thorities and 104 to local ones). The state sector faced a decline due to the city's policy on equitization of its industrial businesses. The state sector obtained 36,943 entities, comprising 6,114 private businesses and 30,754 individual units. The number of foreign-invested manufacturing enterprises also rose sharply to 718. As a result, the city industrial entities climbed 32% in quantity as compared to 2001. The state sector dropped 5.2%, non-state sector up 31.6%, including private businesses up 23.1%, individuals up 17.7%. This is attributed to good effects from the implementation of the Law on Enterprises, so the number of non-state industrial entities soared. Nevertheless, the number of collective businesses almost saw no change, for example, it was 72 in 2005 and up only to 75 in 2005, or up 4.1%. Foreign-invested businesses have increased in terms of quantity significantly for five years of development. They

rose 67.75% in 2005 as compared to 2001 (See Table 3).

Table 3: The number of manufacturing businesses in HCMC from 2001 to 2005

	2001*	2002**	2003**	2004**	2005**
Total	28,698	31,632	35,815	36,236	37,878
By sector					
<i>State sector</i>	229	231	217	216	217
- Central government	114	117	106	110	113
- Local government	115	114	111	106	104
<i>Non-state sector</i>	28,041	30,860	35,031	35,393	36,943
- Collective	72	73	76	71	75
- Private	1,846	2,661	3,240	4,600	6,114
- Individual	26,123	28,126	31,716	30,722	30,754
<i>Foreign-invested sector</i>	428	541	567	627	718
By industry					
<i>Mining</i>	668	532	538	440	361
<i>Processing</i>	28,025	31,095	35,268	35,782	37,503
<i>Manufacturing electricity and water</i>	5	7	7	5	5

Source: (*) HCMC Statistics Bureau, 2005 Statistics Year Book, p. 59-60.

(**) HCMC Statistics Bureau, 2005 Statistics Year Book, p. 57-58

If the performance is considered by industries, most of the city industrial entities are engaged in processing with 37,503 businesses, accounting for 99% of the city's total industrial establishments in 2005. The number of mining businesses reduced from 668 in 2001 to 361 in 2005. The contraction is suited to the city's industrial development process in the trend of reducing the mining industry and promoting the processing one. In the processing industry, garment businesses made up the highest proportion with 8,678 entities, accounting for 23.1%; followed by those manufacturing metal products with 7,320 entities, or 19.5%; and the third rank belongs to those producing

facturers of rubber and plastic: 3,379 entities, or 9%. (See Table 3)

*As for the working population of the city industry: The HCMC industry has provided jobs for a great deal of the

dustry in 2001, accounting for 13.6% of the city population, and this figure soared to 1,091,299 in 2005, or 19.28% of the city population.

The state sector attracted 168,357 work-

Table 4: Working population in the HCMC industry from 2001 – 2005

Unit: Person

	2001*	2002**	2003**	2004**	2005**
Total	717,297	809,219	897,848	980,232	1,091,299
By sector					
<i>State sector</i>	147,878	155,917	162,492	166,154	168,357
- Central government	104,976	107,999	112,599	117,740	120,748
- Local government	42,902	47,918	49,893	48,414	47,609
<i>Non-state sector</i>	406,021	446,582	479,702	519,452	577,495
- Collective	2,829	3,173	4,339	4,557	5,284
- Private	218,066	246,387	287,447	333,092	390,585
- Individual	185,126	197,022	187,916	181,803	181,626
<i>Foreign-invested sector</i>	163,398	206,720	255,654	294,626	354,444
By industry					
<i>Mining</i>	5,372	3,515	3,990	3,026	2,582
<i>Processing</i>	704,462	797,724	884,049	966,874	1,078,065
<i>Manufacturing electricity and water</i>	7,463	7,980	9,809	10,332	10,651

Source: (*) HCMC Statistics Bureau, 2005 Statistics Year Book, p. 66-67.

(**) HCMC Statistics Bureau, 2005 Statistics Year Book, p. 64-65

ers, accounting for 15.42% of the city industrial labor in 2005, including 120,748 workers for central businesses and 47,609 for local ones. There were 577,497 persons employed by the non-state sector, or 52.91% of the city industrial labor, including 390,585 workers in the private sector, accounting for 35.79% of the city industrial labor and 67.63% of total working population in the non-state sector. This is the highest percentage among other sectors. Second in job creation are foreign-invested businesses. This sector employed 345,444 workers in 2005, representing 31.5% of the city industrial labor while the ratio was only 22.77% in 2001. This sector will play an important role in the city employment (See Table 4)

* As for labor productivity: Considering the industrial production value per worker, the city labor productivity has risen steadily from 2001 until now. The industrial production value per worker notched up VND93.3 million in 2001, VND95 million in 2002 up 1.8% over 2001; VND98.68 million in 2003, up 3.87%; VND103.6 million in 2004, up 4.98% and VND106.57 million in 2005, up 2.86%. In the state sector these figures are VND205 million in 2001; VND208.5 million in 2002, up 1.7%; VND219 million in 2003, up 5%; VND243.9 million in 2004, up 11.36% and VND259.5 million in 2005, up 6.4%.

The private sector also shows good productivity: VND54.1 million in 2001; VND60.7 million in 2002, up 12.4% over 2001; VND64.6 million in 2003, up only 6.4% over 2002; VND68.2 million in 2004, up only 5.57% over 2003 and VND68.38 million in 2005, a slight increase over 2005. This shows harsh competition in production between sectors. In the individual sector: The industrial production value per worker reached VND38.1 million in 2001; VND41.56 million in 2002, up 9.08%; VND48.35 million in 2003, up 16.33%; VND54.7 million in 2004, up 13.13% and



Photo by Huỳnh Thơ

VND60.5 million in 2005, up 10.6%.

The productivity of the foreign-invested sector tended to go down from 2001 to 2004, but began to restore since 2005. The sector's industrial production value recorded VND107 million in 2001; VND102.1 million in 2002, down 4.57%; VND98 million in 2003, down 4%; VND95.27 million in 2004, down

2.78% and VND100.2 million in 2005, up 5.17%. These figures justify that the city industry has attracted a large amount of foreign investment into labor-intensive industries such as garment, footwear, woodwork, etc. Therefore, it has provided a lot of jobs for workers and 80% of them come from other provinces. They are mainly unskilled labor.

Most of FDI businesses are Taiwanese and Korean. They have medium and small size, low technologies and small investment capital. They poured money in Vietnam to make the advantage of cheap labor cost, thus reducing the productivity of the foreign-invested sector in the city industry (See Table 5).

From 2000, the HCMC has decided to

Table 5: Per capita output value of the HCMC industry from 2001 to 2005 (based on 1994 price)

	2001	2002	2003	2004	2005
Unit: VNDmil.					
The whole industry	93.3	95	98.68	103.6	106.57
-State	205	208.5	219	243.9	259.5
- Individual	38.1	41.56	48.35	54.7	60.5
- Private	54.1	60.7	64.6	68.2	68.38
- Foreign-invested	107	102.1	98	95.27	100.2
Unit: %					
The whole industry	9.76	1.8	3.87	4.98	2.86
-State	33.55	1.7	5	11.36	6.4
- Individual	0.02	9.08	16.33	13.13	10.6
- Private	-4.24	12.4	6.4	5.57	0.26
- Foreign-invested	6.04	-4.57	-4	-2.78	5.17

Source: (*) The authors' calculations based on figures of 2003 HCMC Statistics Yearbook, p.56, 108; and 2004 Yearbook, p.66, 74.

(**) The authors' calculations based on figures of 2005 HCMC Statistics Yearbook, p.64, 7.

* The export of manufactured goods in HCMC

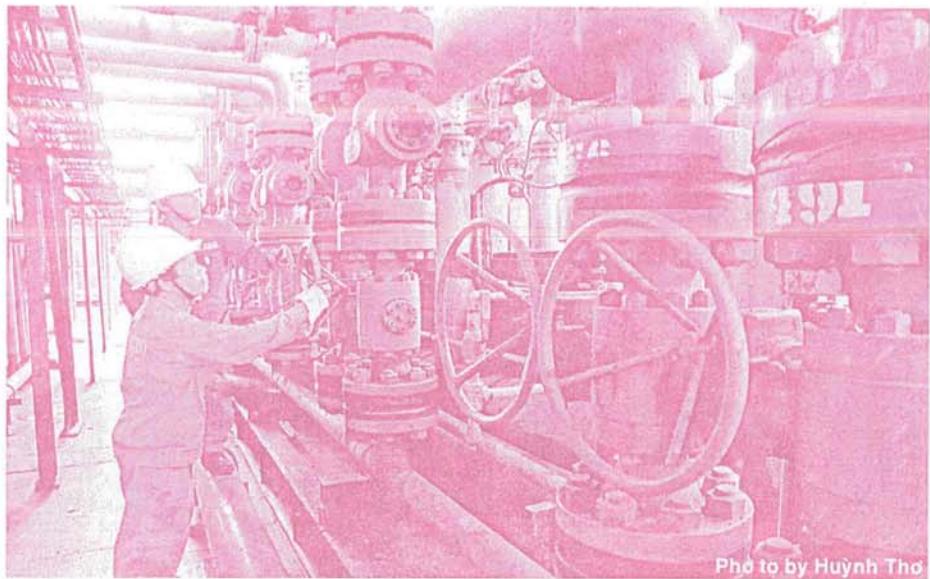


Photo by Huynh Tho

establish major exports with the aim to boost up its export value, expand production, build new industries and promote its economic restructuring toward industrialization and modernization as well as integration in the world and regional economies. Based on this policy, the city has determined major groups of exports in

the 2000 -2005 period, including (1) Textile and garment; (2) footwear; (3) seafood; (4) building materials and plastic; (5) farm products and processed agroproducts; (6) handicrafts; and (7) hi-tech products and software.

The city export performance in 2004 and 2005 is indicated in the following table:

The above table reveals no big changes in the city's major exports. They still focused on traditional items such as textile, garment, processed agro-for-estry-fishery products, handicrafts, etc coming from labor-intensive industries with less technologies and knowledge-based values. The

export turnover of hi-tech industries remained modest and their production and business underdeveloped. Textiles and garments accounted for nearly 13% of the city's total export value in 2004 and rose 23% in 2005; similarly footwear making up 14% in 2004 and nearly 15% in 2005; agro-forestry-fishery products representing nearly 10% in 2004 and 12.36% in 2005. In the meantime, electronic items and computer components accounted for only 0.54% in 2004 and 0.53% in 2005. As such, the city export has not yet tapped its potentials and strengths as a center attracting a lot of well-educated and high-qualified workers and intellectuals. As a result, the city industry is required to enhance the production of goods and services from high-tech and knowledge-based industries. (See Table 6)

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Table 6: Export value of the city's major products from 2004 to 2005

Items	2004		2005	
	Export value (US\$mil.)	%	Export value (US\$mil.)	%
Textiles, garments	1,078.8	12.99	1,897.2	22.83
Footwear	1,161.1	13.98	1,229.7	14.79
Seafood	357.4	4.3	381.7	4.59
Plastic products	24.7	0.3	34.5	0.41
Rice	276.7	3.33	472.23	5.68
Coffee	56.37	0.68	54.82	0.66
Vegetable and fruit	33.72	0.41	42.61	0.51
Rubber	46.35	0.56	33.37	0.4
Pepper	38.9	0.47	37.2	0.45
Tea	6.8	0.08	4.5	0.05
Peanut	5.1	0.06	2	0.02
Handicrafts	93.0	1.12	86.7	1.04
Woodwork	51.9	0.63	235.7	2.84
Electronics & computer components	44.8	0.54	44.0	0.53
Bicycle and spare parts	114.8	1.38	86.6	1.04

Source: The 2005 Reports of Ministry of Trade and the HCMC Customs Office.