



VIETNAM'S INDUSTRIAL BUSINESS ENVIRONMENT

FACTS AND SOLUTIONS

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1. Facts

Vietnam's macro-economic and structural reform launched in late 1980s has stabilized the economy and led to high growth in income. This not only brings the country's stage of economic recession to an end, but also makes Vietnam become one of economies having the highest growth rate in the world with an annual average growth of 5% in per capita income.

In the past five years, besides certain advantages, the country has encountered such difficulties as existing weaknesses of the economy, incessant natural disasters, financial crisis in some Asian countries and complicated changes in the world and the region. However, Vietnam has still recorded significant achievements. The economic growth rate increases fairly high with an annual rise of 7% in GDP. The agricultural production continuously rises, especially food output; and the aquaculture is expanding. The industrial output value soars 13.5% yearly. The infrastructures including post and telecommunications, roads, bridges, ports, airports, electricity, irrigation

and so on are enhanced. The sectors of services, import and export also indicate a rise in revenues. Finally, Vietnam stopped the decline of economic growth and reached or exceeded the planned targets.

However, the Vietnam economy also faces weaknesses and limitations. It develops unfirmly. Its efficiency and competitiveness is low. The economic growth has been slowing in the five last years although it recovered in 2000 but was not high as in mid 1990s. The productivity is on the whole low, product quality poor, and prices high. A lot of agricultural, industrial and handicraft products were unsalable domestically and overseas due to low competitiveness. The financial and banking system remains weak and unhealthy. The economy is slowly restructured. The investment structure is irrational and the investment is still dispersed, wasted and lost. The foreign direct investment capital drops while the management tasks in this sector reveal a lot of deficiencies. The productive relations are inappropriate in some aspects. The State economy is not strengthened in line with its

leading role. The reformation of state-owned enterprises experiences little progress. The collective economy is not strong. The private economic sector has not developed fully. It is important that Vietnam's notable economic growth in the past 10 years will be less significant if it cannot be maintained in future.

2. Major solutions to perfecting the business environment

The environment is regarded as an outside and objective factor affecting the enterprise's business efficiency and competitive edges if based on microeconomic level. However, based on macro management, to perfect environmental factors is extremely important to enhancing the enterprise's performance and competitive strength. To create a favorable climate for production and business is the responsibility of the whole society, but most important and decisive is the Government. The following are basic environments:

2.1 Political and legal environment

To make the politic environment favorable for business doing, atten-

tions should be given to the following contents:

(1) To continue boosting renovation and build a socialist-oriented market economy and to secure the system of Party leadership, Government management and people autonomy suitable to new condition and situation. (2) To uphold the leading role of the State economy. (3) To accelerate the national administration reform and promote efficiency of governmental bodies. (4) To speed up restructuring the whole economy, especially state-owned enterprises. (6) To affirm the importance of the private sector to the sustainable development of labor intensive and export-oriented industries. (7) To perfect legal environment so that local and foreign investors feel assured in their business and investment.

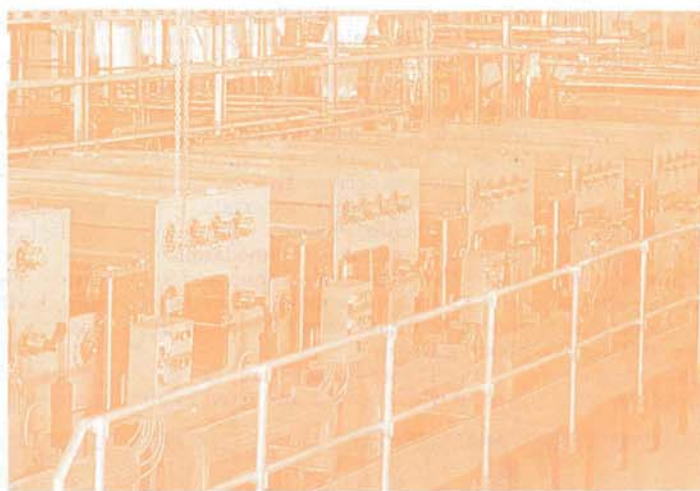
2.2 Economic environment

(1) To actively perfect the market mechanism along the socialist line. (2) To constitute uniformly factors of the market economy is an urgent requirement to perfect the market mechanism. (3) To set up some support institutions needed for enterprises including trade promotion centers, advisory centers, etc. (4) To proactively participate in the process of present-day regionalization and globalization; and prepare necessary steps to be admitted to the WTO. (5) To enhance perfection of the foreign investment environment. (6) To improve the country's financial system.

2.3 Environment of psychology, culture, society and population

The following measures should be taken: to generate a psychological, cultural and social environment favorable for business activities; encourage every person and sector to invest and do business, highly appreciate the entrepreneurship and business people; establish soon a cultural environment, autonomous psychology, self responsibility, attitude of boldly recognizing one's weaknesses and respecting associates, competitors, and trust in business; and protect copyrights. The environment will be improved via the mass media and emulation movements.

The socio-cultural environment also indicates a development foundation of a locality and a nation. The educational attainment and cultural level constitute resources for sus-



tainable development. The socio-cultural environment is both a socio-economic development element and a goal of building an equitable and civilized society. To obtain a good human resource, the Government is required to facilitate the process of self education and technology transfer just in companies and factories by giving incentives in terms of material and spirit; respect and attract talents as well as avoid the localism.

2.4 Technology environment and others

First, technology need be understood widely as all methods to improve resources for production and business rather than equipment and machinery in a narrow meaning. Domestic and international competition is the strongest dynamic for technological innovation. The enterprises have to seek how to acquire foreign technologies and utilize them effectively. They are also required to attach great importance to full transfer of know-how from foreign suppliers. Furthermore, they have to enhance their capacity to absorb, apply and upgrade imported technologies.

The Government should pay special attention to making policies and favorable environment for technology transfer. Technology transfer is not only undertaken from foreign sources, but also among enterprises, between major economic centers and provinces, especially from universities and research centers to enterprises. The mechanism and form of technology transfer need be abundant just in contracts of purchasing equipment and machinery including technology transfer, assistance and consulting contracts, training courses, and so on. The Government may give financial assistance to busi-

nesses, especially small and medium-sized enterprises in their technology transfer. At the same time, these enterprises should try to allure supports from universities, research centers and international organizations in this field.

The universities are required to upgrade their centers for scientific and technical research and combine their studies with production and commercial applica-

tion. The domestic sector of technical services should be enhanced and incentives given to the development of private technical consulting and design establishments. The Government needs to fortify its capacity to finance technology innovation by increasing the proportion of state budget spent on scientific and technological projects; reduce tax; provide credit and guarantee for the application of new technologies; and utilize financial instruments for research and development (R&D) investments including institutions of venture investment capital.

Other environments include enterprises' activity environment, natural environment, and so on. Each environment has different influence on an enterprise's business efficiency. An environment of activities, competition and mutual assistance should be established via associations, mass organizations, clubs...to create the spirit of unity and assistance, share information and cooperate together. This will utilize the strength of each member and forge the general power in the market and international economic relations.

The documents on economic development commonly highlight the importance of organizations as a major factor contributing to proper policies. The development of micro-level organizations is as important as macro-level ones.

In addition, production and business activities are closely attached to the protection and improvement of natural resources and livelihood environment. The Government assistance in building infrastructures, planning development, training and providing utility services is also inevitable. ■