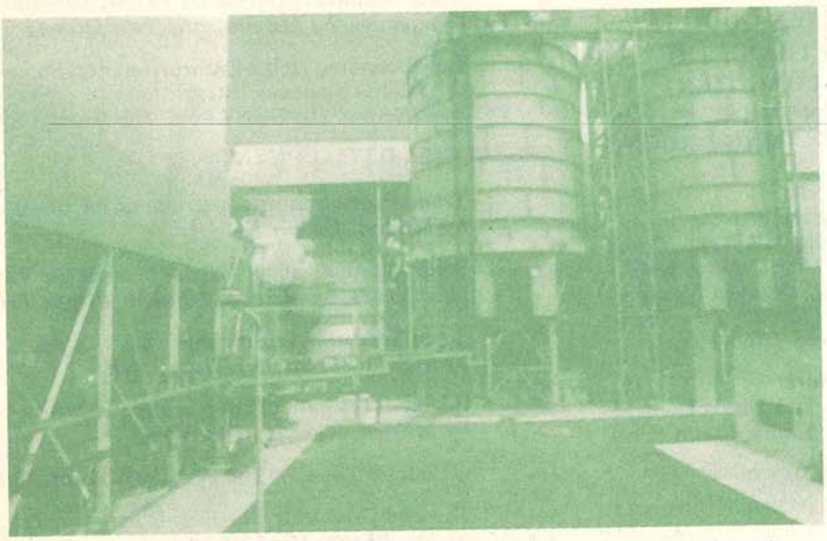
HOW TO ENHANCE COMPETITIVENESS OF VIETNAMESE COMPANIES

by Dr. LÊ KHOA

The problem facing the industrialization and modernization process today is the fact that the production cost of local goods is usually much higher than imported counterparts: for example, the price of a tonne of local sugar is US$100 higher than that of imported sugar; or a tonne of local cement is US$20-50 dearer. A Chinese bicycle is sold at VND300,000, or a Chinese moterbike at some VND6 million or 9 million at most. They are all cheaper than locally made bikes. Many manufactured goods from China take from 40% to 90% of the market.

Why do local producers who enjoy cheap labor, raw materials and transport cost make costlier and uglier goods than imported ones? What are measures make them more competitive and able to produce goods at lower prices and better quality and gain enough profit to make more intensive investment? This is very important to future of the Vietnamese economy, because the sustainable development of an economy depends on the development of companies. If most companies suffer loss or make small profits only, they can't accumulate enough capital to take off. After the World War II, Japanese small and medium companies enjoyed two decades of capital accumulation and continuous development, and they become multinationals now. To develop into an industrialized country, Vietnamese companies must develop from small to big ones equipped with modern machines to produce goods of higher quality and lower prices than imported ones. That is why the better competitiveness for local companies becomes an urgent matter.



1. Reasons for poor competitiveness

Before 1945, Vietnam was a French colony that supplied raw materials to and consumed manufactured goods from France. In the wartime, most money and energy were spent on the struggle against intruders. After 1975 when the country was unified, wrong policies and American embargo prevented Vietnam from industrialization. And as a result, in the 1990s, Vietnam fell far behind neighboring countries and became helpless when the socialist bloc collapsed. In this period, the demand always exceeded the supply, the public consumed anything supplied by producers regardless of their quality and prices. Those two problems even didn't exist because everything was produced and sold according to plans and prices set by the state. As for companies, most of them didn't care about production cost and profit because the state was the real owner of companies.

In the late 1990s when the centrally-planned mechanism was replaced by the market economy, all companies (in fact they were state-owned ones) faced competition from foreign companies or imported goods, two problems arose: (1) local goods were of high production cost and poor quality; and (2) local companies suffered great losses because their goods weren't saleable.

To assist state-owned companies, the SBV and its branches provided them with soft loans. The bank interest was high then with the result that many companies failed to make enough profit to repay debts. Up to now, many of them still suffer high debt-equity ratios because their debts accumulated over years. The interest they pay to banks is sometimes bigger than the labor cost. That is why they couldn't modernize their production lines or import new technologies for years.

The foreign sector that came into being in the 1990s also produced negative effects:

- Many machines imported by foreign-invested companies are obsolete because the first foreigners coming to Vietnam considered it as a dumping ground or a market for used machines.

- Many foreign-invested companies of small size aimed at assembling imported parts before selling to the domestic market or exporting.

- Foreigners working for foreigner-invested companies usually get higher salaries plus bonuses and allowances than they did in home countries.

These factors explain why goods made in Vietnam are still dearer than imported goods, especially those from China. This situation made it more difficult for Vietnam to develop and industrialize its economy. In recent years, efforts made by both the Government and companies have been limited to the building of infrastructure, power supply, transport, housing development and services. The manufacturing sector is slow to develop and the domestic market still consumes imported manufactured goods in large quantities.

Recent improvements in the living standard are due to big investment in the infrastructure, development of agricultural production and construction business, and increases in export earnings. Vietnam, however, hasn't developed technology-intensive industries that produce high-quality and expensive goods. And as a result, the public with higher personal income consume more and more high-quality goods imported from any foreign countries. The widespread use and circulation of the dollar, continuous falls in prices of many imported consumer goods on the world market and aggressive selling practices by foreign suppliers make import business easier. Vietnam seems to keep playing the role of a market for foreign manufacture goods.

2. Measures to enhance the competitiveness of Vietnamese companies

Measures taken should be suitable to the direction set by the Government. This direction includes some requirements: (1) the leading role belongs to the public sector; (2) the Government and the public make joint effort; (3) the private sector is allowed to exist for a very long time; and (4) industrialization aims at sustainable development.

a. To help the public sector, or state-owned companies, play well its leading role, its finance must be reformed because the debt-equity ratio in many state-owned companies is very high (20:1 or 30:1 for example) and bank interest becomes a burden to them. This situation originated from the fact that both companies and banks were owned and run by the state. The central bank increases the money supply to extend loans to state-owned companies and collect interest while companies can't make new investment because of poor performance, low profit and the burden of bank interest. The solution is to turn bank loans into capital paid by banks to the company. In other words, banks become founders of companies and more responsible for performance of companies. As for companies, they are free from the burden of bank interest and could concentrate their effort on improving their business performance.

b. After restructuring state-owned companies, the government could allow some of them (the healthiest ones) to go public in order to increase their working capital and engage in production of high-quality consumer goods. These companies must accumulate a working capital of millions of dollars. Big investments will allow them to import modern production lines and make their products good and cheap enough to compete against imported ones.

c. Import authorities must see to it that second-hand machines aren't allowed to go into Vietnam. It's better to make modern machines by ourselves. If we have to import them, we must buy the best ones.

d. In the first place, Vietnam can employ foreign experts and at the same time, a plan to train local technicians and engineers must be carried out properly. Employment of local experts could help reduce the labor cost, thereby reducing the production cost.

e. New investments must be made in the domestic currency. At present, the price index only fluctuates slightly, so the central bank can increase the money supply without causing hyperinflation as experienced in the 1980s. Increases in the money supply could be used for capital investment if the exchange control is done strictly. The stock market is also an effective instrument for mobilizing idle money from the public.

These measures could help improve the competitiveness of Vietnamese companies. Implementation of them depends a lot on the government planning and efforts by the banking system.■