IN PREPARATION FOR LOCAL COMPANIES' SUCCESS IN THE INTERNATIONAL COMPETITION

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New answers to the economic problems in Vietnam

In the last ten years, the Vietnam's economic growth was remarkable thanks to the economic reform policy, foreign investment and efforts of both the Government and the public. However, we must realize that local companies' competitiveness is poor and causing a lot of worry. For example, in the first eight months of 1997, centrally run industries in HCMC increased only by 4.7% compared with the same period last year, HCMC state-run industries 13%, HCMC non-state industries 8.1% and foreign-invested sector 34.8%.

The success in competition is determined by four factors: price, product quality, consumers' taste and company's public image. Most local companies fail to compete against foreign rivals (operating in Vietnam or abroad) regarding all those factors. Causes of their failure are as follows:

-Obsolete technology leading to low economic efficiency.

-Poor managerial skills.

-A great shortage of skilled workers.

-Lack of business information.

-Difficulty in securing capital.

For example, in the paper industry, all machines and equipment have been employed for at least 20 years. Nearly 80% of some 38,800 local companies are private ones with an average capital of VNĐ174 million only. Total capital of all local companies amounts to US$10 billion compared with some US$30 billion invested by foreign companies in Vietnam. Generally, capital of a foreign invested company is 70 times higher than that of a local company.

The shortcoming in these factor inputs is the direct cause of low competitiveness and economic efficiency of local companies. According to a report prepared by the State Companies Reform Board, the average profit-to-capital ratio in state companies in 1993-1994 was 5%, while the inflation rate was 9%; that is, they suffered a 4% loss in a year.

Besides abundant factor inputs and output, foreign companies are ready to use price competition to defeat local rivals and expand their market share. The situation is certainly an unequal match for local companies. A foreign-invested joint venture has recently spent VNĐ90 billion on advertisement and price-cutting with a view to getting the market under control. A survey shows that 90% of medicine consumed by hospitals in HCMC was foreign in origin, because foreign pharmaceuticals companies offered a 10% commission to wholesalers, including hospitals. This means that Vietnam's hospitals are encouraged to boycott locally made drugs.

Thus, the question we are facing is: How can Vietnamese companies compete against foreign rivals in a long range when both their inputs and output are poor?

Poor inputs never produce good output. Good output ensures high competitiveness. These principles mean that local companies will certainly be defeated. So we have to find out new, or even strange, answers to the question. Otherwise, Vietnam will become a network satellites and subsidiaries of foreign companies.

In the past struggle against foreign invaders who were much stronger regarding all aspects, the Vietnamese people have found out creative ways to defeat them. At present, we must make this experience and knowledge of economics and management learned recently preconditions for new answers to our economic problems.

Experience from companies succeeding in industrialization in the years 1991-1997

The HCMC Service of Science, Technology and Environment, in cooperation with Services of Industry, Agriculture and Rural Development, and Healthcare, along with professors and students from Universities of Technology, and of Agriculture and Forestry (National University-HCMC) have surveyed 30 economic concerns, farms, hospitals and centers obtaining achievements in industrialization during the period between 1991 and 1997. Experience and lessons drawn from these achievements are of great service to the industrialization and modernization process in HCMC. The following is a typical example.

The Saigon Garment Company III (SGC III) was established in 1986, and up to 1990, it specialized in doing work subcontracted by exporters from the former USSR. It started with a workforce of 1,000 laborers and 120 old-style family sewing machines, 300 old-style industrial sewing machines and 50 modern industrial sewing machines. In 1990, the socialist bloc collapsed, so did the market for the company's products. The company came to an impasse and its workforce reduced to 500 laborers only. At that time, the company management identified two urgent tasks: maintaining this workforce and finding new orders. The management had to sell out old stocks and borrow money from other companies and the HCMC Service of Industry to pay the workers. To get new orders, the SGC III had to depend on other companies such as the Saigon Garment Company II and the Viteco. An order for 2,000 windbreakers from a German company subcontracted by the SGC II provided the SGC III with a chance to pass its crisis. However, the Company had no experience of making products to orders placed by Western customers so it had to depend on help from the SGC II. Learning by working, workers and technicians of the SGC III, after a while, could master methods of producing goods for European markets.

At first, the company tried its best to meet quality standards although its equipment and machines weren't modernized, and then the company built up a reputation for itself and started receiving orders directly from customers. To meet requirements posed by customers, the company replaced 120 old family sewing machines with modern ones and some industrial sewing machines with financial support from foreign leasing companies. These efforts helped the company, within two years 1991-1992, get rid of the danger of bankruptcy, find a foothold in a more demanding market, modernize a part of equipment and introduce some new technology.

In the next period (1993-1994), the company targeted at the Japanese market from which it could receive regular orders and training courses in technical and managerial skills. The company kept on modernizing the equipment by importing new machines on installment plans with its customers acting as intermediaries between the company and foreign hire-purchase companies. As the amount of orders increased, the company built a new factory equipped with completely modern machines. In management aspect, the company leadership advocated controlling strictly production plans of factories, giving equal pay for equal work, and depending on customers for information about market and technology (because the company had no ability to gather it).

In the third period from 1995 till now, the company built four factories. Customers financed all of them and the company planned to repay all debts within three years.

Thus, after six years, all obsolete equipment of the company was replaced with modern one. The amount of machines increased from 470 to 1,800; factories: from 2 to 7; workforce: from 500 to 2,000 workers. The labor efficiency was doubled. Its products were sold to Japan, Taiwan, South Korea, Germany and the US.

From the survey of 30 units, we draw the following lessons:

+ Companies can modernize their production lines before the macroeconomic management mechanism is reformed.

+ The shortage of capital isn't the insurmountable obstacle to modernization, because of great help from leasing (or finance) companies. Good business strategy and public image are preconditions for getting investment from foreign finance companies. In most cases, local parties have to make small investments only.

+ The first aim of the modernization process is not the replacement of equipment, but the identification of new and competitive products. Good products could survive the keen competition and help to cover replacement cost.

+ The company director must be a person who initiates the modernization scheme. He (she) must be radical, responsible and determined enough to encourage and demand sense of responsibility from subordinates. This behavior will help to rationalize the management machinery and encourage personnel participation.

+ Besides equipment modernization, it's necessary to develop distribution channels by expanding the outlet network, changing payment terms and supplying after-sales services.

+ Modernization must be a self-reliant process involving successive stages. Outcome of one stage will serve as a basis for the next one.

Before carrying out the modernization scheme, many surveyed organizations were on the brink of bankruptcy, and after 5-7 years of real efforts, they could improve both factor inputs (especially technology, management, labor and capital) and qualities of output (price, quality and public image) without, or with only a little, financial support from the Government.

Thus, the success of 30 surveyed organizations in modernization has proposed an answer to the above-mentioned question of local companies' ability to compete against foreign rivals. So the first answer is: each company has to improve its factor inputs by identifying new products for each stage of development and carrying out the modernization as a self-reliant process including appropriate stages.

Government's role and strength of cooperation in modernization and international competition:

In Western traditions, the government tends to keep itself from intervening in economic activity, and companies have to depend on themselves. However, experience from Asian industrial countries such as Japan, South Korea, Taiwan and Singapore shows that the cooperation between the government and companies is of great importance to their miraculous development.

Japan is a good example of how to employ foreign resources for economic development and to protect local industries from foreign competition.

In 1952, Japan joined the WB and the IMF and asked for permission to postpone realizing the IMF's Rule 8 about deregulation of trade and foreign exchange remittance for 12 years. In 1955, Japan joined the GATT and also got the Rule 11 about deregulation of import postponed for 8 years. This precious length of time is enough for Japan to work out a careful and detailed plan to liberate import business.

In parallel with the trade liberation program, Japan reformed its tax system in 1961 and used it as an instrument for protecting local industries. Tariffs were reduced step by step forcing local companies to develop quicker. In 1964, Japan joined the OECD and postponed the foreign investment liberation. From 1964 to 1973, Japan five times loosened its grip on foreign investment by increasing gradually the number of industries allowing foreign investment. Until 1973, there were only 22 industries closed to foreign investment.

Thus, within 20 years (1952-1973) Japan joined major international economic organizations to attract foreign resources on the one hand, but on the other, it tactfully broke free from unfavorable restraints. During the time it had bought, the Japanese government tried its best to develop industries with comparative advantages and merged companies into cartels big enough to compete with foreign companies. Many Japanese cartels, such as Mitsui, Mitsubishi, Kobe Steel, Nissan, Nissho-Iwai and Nippon Steel came into being in this period through mergers.

To supply exact and timely business information to both Japanese export companies and foreign potential buyers, the Japanese government, in cooperation with companies, established the JETRO (Japan External Trade Organization) in 1958 with branches all over the world.

South Korea also carried out the same strategy. The government and companies cooperated in gathering and analyzing information, and in working out necessary development plans. Since 1965, the government held monthly export promotion conferences presided by the President himself. The audience included many ministers and chairpersons of business associations.

Since 1964, the September 30 was chosen as the "Export Day". In 1973, a law on development of research centers was passed. The government and private persons invested in R&D activity in private companies. Big companies helped small ones with this activity. In 1990, there were over 700 privately-run R&D centers. In South Korean Plan G7 to develop new technology until 2001, government and companies cooperated in developing 11 key industries.

These examples from Asian industrial countries help us understand the following lesson: Companies must cooperate with one another; the government and companies must cooperate to improve factor inputs because companies can't do it effectively by themselves. Two factor inputs that have been improved remarkably in those countries are technology and information about technology and market.

Experience from the economic development of Vietnam and other countries

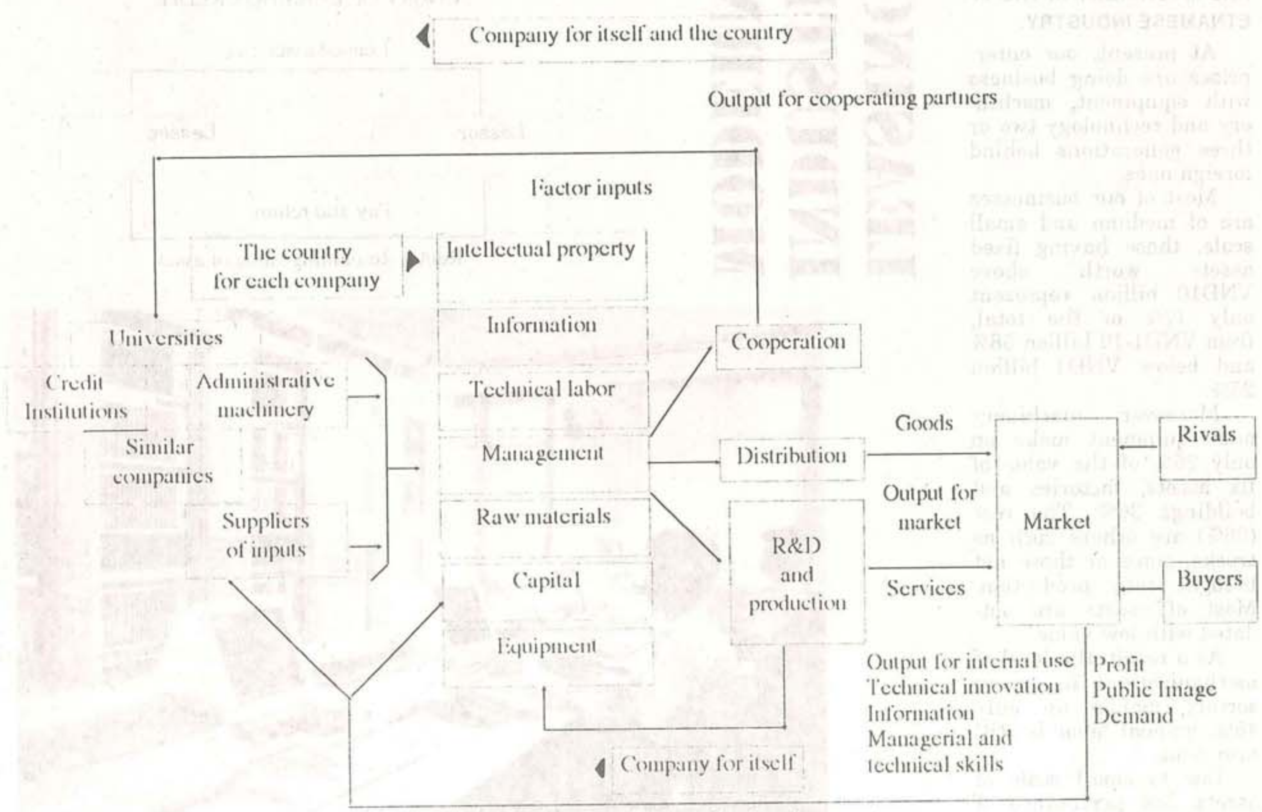
Vietnam's victory in the struggle against foreign invaders shows that solidarity is strength. The success of Asian economies verifies that the cooperation between governments and companies is the secret of fast and stable development. The growth of American economy demonstrates that government; companies and universities constitute a tripod for industrialization and modernization. The increasing importance of finance companies, the ones that risk investing in new ideas and inventions, suggests that the second solution to the development problem in Vietnam is the formation of a quadruple alliance for development consisting of governmental bodies, universities, companies and finance institutions. Such an alliance will certainly help companies to improve all of their factor inputs.

From above-mentioned analyses, we suggest a model describing the mechanism for modernizing a company (see Graph 1). In this model, a company has seven factor inputs: equipment, capital, raw materials, management, labor, information and intellectual property. Its operation includes production and R&D, distribution and cooperation. Its output could be divided into three groups: output for market (goods and services), output for internal use (technical innovation, information, managerial and technical skills) and output for cooperating partners (cooperative plans and patterns).

Each group of output could be used as new inputs for the next development stage. To improve necessary inputs, the company can employ optimally resources to produce better output for internal use, or better output for market, or better output for cooperating partners. The company will make its decision depending on its current conditions and goals for the future. The company can choose between two attitudes: (1) Company for itself, or (2) Company for itself and the country. Besides them, there is the third attitude: The country for each company (see the Graph).

In our opinion, each company, in the long run, has to produce all three groups of output, and take all three attitudes in order to improve its factor inputs, modernize the production and enhance its competitiveness.

If the country is for each company, and each company is for itself and for the country, there will be enough strength for local companies to succeed in the international competition and cooperation ■



Graph 1: Quadruple alliance for development