MODERNIZATION OF HCMC INDUSTRIES AND SOME PROBLEMS TO BE SOLVED

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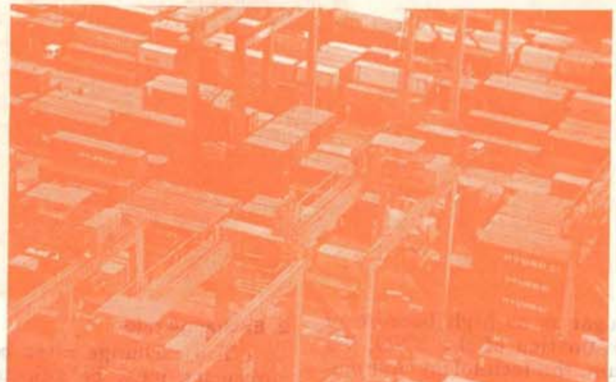
1. Modernization of HCMC industries in recent years



According to a rough estimate, machines and equipment represented some 60% of fixed assets of HCMC industries, and three-fourths of which was held by state - companies.

In recent years, the economic development, the management reform and the competition have forced all companies to modernize their machinery and they have sent big sums of money on it with the result that HCMC industries have been able to make new product lines which met demand in both foreign and local markets. This modernization process has helped HCMC industries maintain their high growth rate in comparison with other provinces and cities. However, most machinery and technology employed by HCMC industries are obsolete and come from different origins, that is why the HCMC indutrial production couldn't be increased as expected and many companies failed to make profit.

A survey carried out by the HCMC Statistics Department in 1996 showed that machinery and equipment of state-run industrial companies were depreciated to a certain extent. The present value of fixed assets held by main state - run industries are as follows:

- Leather, clothing: 70 - 85%
- Power: 60%
- Rubber and plastic: 60%
- Engineering and assembling: 55%
- Textile: 53%
- Chemicals: 51%
- Tobacco: 49%
- Other manufacturing businesses: 56%

In the non - public sector, including private companies, joint stock companies and joint ventures with foreigners, machinery and equipment are newer due to new investments made recently, the present value of their fixed assets is of some 80%. In the private sector, most machinery is backward, only a few owners invested in technological modernization.

According to the HCMC Statistics Department, in the three-year period from 1991 to 1993, around two thirds of companies put money in technological renovation thereby increasing the value of fixed assets.

In state-run industrial concerns, the present value of fixed assets has increased from 49% in 1989 to 56% in 1996. In the period between 1991 and 1993, some VNĐ400 billion was spent on new equipment and production lines, that is, the replacement cost increased by 10% a year. The value of fixed assets of companies run by central departments and district authorities increased by 10 - 15%, and 5% in state-run companies at municipal level.

In non-public sector, private, joint stock and limited companies have spent more money on technological modernization as compared with state - run companies. This spending increased from VNĐ 120 billion in 1992 to 150 billion in 1993 (an eightfold increase in comparison with 1991). Investment in machinery and technology made by this sector represented about 63% of its gross investment compared with 40% made by state-run companies.

Generally, around two thirds of privately-run companies have invested in technical modernization with a view to producing goods which were saleable in foreign markets.

In joint ventures with foreign partners, most machinery are brought into Vietnam by foreign parties, locally-made equipment represented only 10 - 15% of fixed assets of these ventures. The value of new machinery imported by these join ventures equals some US$20 million every year.

In general, the technological modernization is carried out badly. Modern machinery represents only 10% of total fixed assets, moderate one 38% and obsolete one 52%. This is the main cause that makes HCMC industrial production, in spite of its recent increase, become unsteady, and it's difficult for HCMC industries to get a bigger share in international market.

Surveying the technological modernization in 460 companies in electric, electronics, building materials, chemicals, rubber, paper, packing, textile, leather, clothing, printing, and food processing industries in the period between 1991 and 1993, the HCMC Statistics Department has made the following remarks:

- In electric, electronics and clothing industries, from 20.4%to 28.6% of machinery employed was considered as modern in comparison with foreign countries.

- Moderate machinery represented about 50% of fixed assets; or more exactly, 51% in clothing industry, 56% in printing industry, and 57.1% in electric and electronics industries. Particularly, all machinery employed by the tobacco industry was technologically moderate.

- Industries with backward machinery and technology are plastic and rubber (54%), texitile and dyeing (57.4%), food processing (65.5%), building materials (80%). The following table provides us with more detalited information:

Table 1: Technological level of machinery employed by HCMC industries in 1991 - 1993 compared with international average (%).

Industry	Techonological level compared with international level		
	Modern	Moderate	Obsolete
Food processing	9.4	25.0	65.5
Tobacco	-	100.0	
Textile-Dyeing	4.3	38.3	57.4
Clothing	20.4	51.0	28.6
Leather-leatherette	12.5	43.7	43.8
Building materials	1.8	18.2	80.0
Printing	16.0	56.0	28.0
Chemicals	15.6	40.0	44.4
Rubber -plastic	5.0	40.6	54.4
Electric-electronics	28.6	57.1	14.3
Average	10.0	38.0	52.0

Source: HCMC Statistics Department, 1994

- Joint ventures with foreign investment can produce goods for export because 44.4% of machinery employed there is modern and the rest is moderate.

- In companies managed by central departments, 60% of machinery is moderate, 10.6% is modern and 28.8% is obsolete.

- In the non-public sector, 66.3% of machinery is obsolete. But in private companies, 30% of machinery is modern and 30.3% is moderate.

The following table presents technological level of machinery employed by different sectors in HCMC.

Table 2: Techonological level of machinery employed by sectors in HCMC (1991 - 1993) compared with international average (%)

Sector	Technological level compared with international average		
	Modern	Moderate	Obsolete
Public	11.4	53.1	35.5
Centrally - managed companies	10.6	60.6	28.8
Locally-managedCompanies	11.9	48.6	39.5
Non-public	6.7	27.0	66.3
Joint stock and limited companies	19.4	54.8	25.8
Private companies	30.0	30.3	50.0
Cooperatives	16.7	33.3	50.0
Family businesses	3.6	22.8	73.6
Foreign-invested companies	44.4	55.6	0.0
Average	10.0	53.1	52.0

Over 92% of industrial companies in the said 3-year period made an avarage investment of VNĐ10 billion in technological modernization, and each company of the remaining 8% even made bigger investments. This fact shows that the technological modernization wasn't carried out on large scale and most investment was put in last stages of production or in processing goods for export, however, some companies, such as Chương Dương Beverage Company, Vĩnh Hội Tobacco Company, Gia Định Garment Company, Vifon, Luks-Saigon joint venture, etc. have spent from VNĐ22 to 40 billion on technological modernization.

In the said period, companies could modernize their production lines by importing machinery with L/Cs or VNĐ, buying under deferred payment terms, by bartering or receiving new machinery as a gift from relatives living abroad.

2. Impact of technological modernization on production

Technological modernization has really improved companies' production capacity, labor efficiency, output, product quality and finally, their profit. Over 75% of 311 companies surveyed have affirmed good effects produced by modernization on their business performance as shown in the following table.(see next page - table 3)

(a) Percentage estimated, because many foreign invested companies came into operation in 1992.

Source: HCMC Statistics Department

a. Regarding output, many companies such as Saigon Wool Weaving Company, Thủ Đức Electronics, Chợ Lớn Garment Company, Fifth District Plastic Company have increased their output remarkably in comparison with 1991, even by 200%.

b. Due to modernization, many companies have been able to produce more competitive goods and improved their production capacity.

c. Some 86% of companies could produce goods of Vietnamese and foreign standards by using new machinery and technology.

d. Up to the end of 1993, 88.7% of companies have had their technical workers trained as operators of new machinery.

3. Problems to be solved

As a major economic center, HCMC economy has developed with high growth rate in recent years under the direction of the Party and the Government, its growth rate in the 1990 - 1995 period reached 12.6% on average, equalling 150% of the national average. In 1995, HCMC represented 17.53% of GDP, 48% of national export earnings, 35% of national industrial output and 30% of budget income, although it represents only 0.6% of the area of the country and 6.47% of the population. These achievements resulted from recent efforts to develop the local industrial production. In 1995, industrial production represented 42.38% of HCMC gross product while 36% of which was contributed by manufacturing industry. The growth rate of industrial production increased by 17.5 - 18% annually.

In HCMC, there are all 19 industries according to the classification adopted by the General Department of Statistics. They have come into being before the Liberation Day and kept on developing till now, however, in the past ten years during the economic reform, many factories have been developed and produced new lines of product with modern technology (assembling car, motorbike, TV set, cassette player, computer or producing electrical appliances, engines and electronic equipment,etc.).

HCMC industries have good chances to modernize and develop fast. Up to December 1996, there were 31,371 industrial concerns under all kinds of ownership in HCMC, 122 of which were of large size with modern technology and under the management of central authorities, 205 concerns under the control of municipal authorities were of small and medium size. Of 30.741 concerns in the non-public sector, 1,223 were private, joint stock or limited companies. Only 20 concerns were of large size, the rest were of small and medium size. In addition, there were 203 foreign-invested companies in HCMC, they all have huge finance resource and production capacity as compared with local companies.

These facts show that HCMC industries are increasingly developing, their products have gained a foothold in both foreign and domestic markets. Generally, the technological level of HCMC industries was improved year after year, all companies have tried to modernize their equipment with a view to bettering their production capactity, labor efficiency and product quality. Their market share has been expanded, but there are lot of unsolved problems with the technological modernization in HCMC industries.

Firstly, technological modernization has become both a challenge and opportunity to all sectors.

Generally, recent surveys show that investment in modernization in HCMC represented only some 10% of gross investment, that is, the modernization in HCMC was carried out slowly. Many industries which require fast modernization, such as computer, telecommunications or chemicals used for food processing, will easily fall behind because products of these industries have a short life cycle (around one year or two). A survey conducted in 1993 - 1996 period shows that machinery and technology of state-run companies has changed from an obsolete to a moderate level as indicated in the following table.

Table 4: Technological level of the public sector (%)

Level	1993	1996
Modern	11	11.3
Moderate	75	77.5
Obsolete	14	11.2

Secondly, the modernization needs to be carried out on a large scale in all industries.

We lack a mechanism for evaluating and importing machinery and technology with the result that 90% of imported machinery was obsolete or of moderate level

Table 3: Opinions about impact of modernization (%)

Sector	Results in 1993 compared with 1991			
	Better output	Better labor efficiency	Better quality product	Better profit
Average	76.2	93.2	90.0	90.0
Public	89.5	93.8	93.8	95.2
Non-public	73.5	91.8	85.0	83.7
Foreign-invested	56.0 (a)	100.0	100.0	100.0

as compared with international average. A lot of imported equipment was second-hand. Through lack of information about modern technology, the effort to modernize industrial production in recent years has failed to increase and improve industrial output, especially in key industries.

Thirdly, in such high-tech industries as informatics, biology, new materials, HCMC industries have fallen far behind foreign counterparts.

Fourthly, the Government must build a mechanism for controlling technology transfer and importation of machinery. In recent years, many companies, especially state-run ones and joint ventures with foreign partners, have imported a lot of obsolete machines and caused a splitting headache to all levels of authorities. These machines, moreover, were usually bought at high prices and caused much pollution, that is why the technological modernization in HCMC in recent years didn't produce intended results.

Fifthly, the technological modernization, or more exactly, the process of technology transfer, has taken place animatedly in HCMC and the market demand for new technology is coming into being, but we see that if there is no policy to give financial support and information services to companies, the technology transfer won't go smoothly because what most companies lack are capital and information.

Another problem is a well-trained labor force. Vietnam, and HCMC as well, is going short of technicians and skilled workers but seeing a boom in university graduates, that is, we aren't prepared for technology transfer and the stage of industrialization and modernization itself.

Human resources have been one of advantage of Vietnam and HCMC to be precise, but we have to reform the education system, especially the vocational training service with a view to absorbing and controlling flows of technology transfer needed for our industrialization and modernization■