



VIETNAM CHAMBER OF COMMERCE AND INDUSTRY

VIETNAM BUSINESS

ANNUAL REPORT 2009

Theme of the year
Enhancing the innovation capacity
of businesses



NATIONAL POLITICAL PUBLISHING HOUSE



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Enhancing the innovation capacity
of businesses**

Hanoi, July 2010

Chief Editor: Dr. Pham Thi Thu Hang – Director of the Enterprise Development Foundation, Vietnam Chamber of Commerce and Industry

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THE PUBLISHING'S NOTE

Innovation and enhancing the competitiveness are main issues of enterprises to exist and develop especially in globalize situation and economic crisis. Vietnam continue to be affected by global economic turmoil in 2009. However, Vietnam's economy still has quite high GDP growth rate at 5.32%. With many effect methods, innovation in business and enhancement competition capacity, enterprises contribute importantly to economic growth.

In order to help reader having more material about these matters, National Political Publishing House cooperates to Vietnam Chamber of Commerce and Industry public the book **Vietnam Business Annual Report 2009 (Theme of the year: Enhancing innovation capacity of businesses)** by Dr. Pham Thi Thu Hang as the chief editor.

The authors assess generally the Vietnam business environment in 2009, focusing on economic growth, import-export activities, enterprise development, FDI attraction, market and prices, provincial competitiveness,... under the disadvantages of regional and international and the Government's stimulus package.

Another issues analyzed and assessed are activities of enterprise to deal with crisis affection, labour and financial access and innovation capacity. This book also introduces technonogical innovation and application in many industries such as supporting technology, electronics and banking,...

Matters showed in the report are complex and general. Although authors and editors tried to complete, the report can't avoid mistakes. We are willing to receive comments from readers.

We are please to introduce the book to all readers.

Hanoi, July 2010

NATIONAL POLITICAL PUBLISHING HOUSE

FOREWORD



Due to the economic crisis, global economic growth stood at -1.1% for the first time since World War second. Despite this situation, the Vietnamese economy achieved a growth rate of 5.32%: a remarkable level not only within ASIA but also across the world. This is the result of the efforts of Government and especially of Vietnamese business associations.

Following the annual reports of 2006, 2007 and 2008, in 2009, the Vietnam Chamber of Commerce and Industry continues to introduce ***Vietnam Business Annual Report 2009***. Report 2009 highlights the complicated changes in the business environment in Vietnam, affected by the global economic crisis. This crisis did not only have a negative effect: it also created many opportunities for firms. To overcome the challenges and leverage business opportunities in this period, businesses needed to implement comprehensive innovation activities for both product development and organizational restructuring, in order to meet the strict market demand. The theme of the year 2009 is “Enhancing the innovation capacity of businesses”. This report will give an assessment of firms’ technology, technological change processes and resources. This assessment will serve as a basis for conclusions and recommendations to both policy makers and businesses, to enhance the innovation capacity in order to overcome difficulties and for further development.

The Vietnam Chamber of Commerce and Industry would like to thank to organizations, foreign and domestic consultants for their comment in developing this report. We acknowledges a special support for publication of the United Nation of Industrial Development Organisation (UNIDO), Housing Construction Investment Joint Stock Company and VCCI Intellectual Property Sole Member Company Limited (VCCI-IP Co.Ltd).

The report was completed in a constantly changing macroeconomic environment. Due to complex issues, it may have some shortcomings. Vietnam Chamber of Commerce and Industry is pleased to receive comments from readers for the improvement of report quality in the coming years.

We would like to send our best wishes to the Vietnamese business community and express our confidence that we will overcome challenges and achieve successes not only in domestic but also international markets.

Dr. VU TIEN LOC
Chairman and President
Vietnam Chamber of Commerce and Industry

ACKNOWLEDGEMENT

The year 2009 continued to be affected by the global economic crisis. After hitting the worst of the crisis in the first quarter of year 2009, with the lowest growth at only 3.1%, the Vietnamese economy grew fast. The stable trend in the second quarter and recovery in the last quarter has helped it reach a remarkable growth rate of 5.32%. This growth level was not only impressive in Asia but also in the crisis-struck world.

Following the success of the Vietnam Business Annual Reports of 2006, 2007 and 2008, the Vietnam Chamber of Commerce and Industry conducted a research report in 2009 with the theme of “**Enhancing the innovation capacity of businesses**”. Besides analyzing the affect of the global economic crisis and improvements in the Vietnam business environment, this report assessed innovation capacity and technological application of Vietnam firms. In a world of economic integration, especially with Vietnam having joined the World Trade Organization (WTO) in 2007, Vietnamese businesses faced strong competition from foreign companies. This required Vietnam firms to enhance their competitiveness through innovation activities. Three areas of innovation were: Product innovation; Organizational innovation and Process innovation. This report also uses financial and human resources indicators to assess the firms’ innovation process.

These analyzes are based on data from a census of companies conducted by General Statistic Office (GSO) and other surveys of VCCI. There was input from research team discussion and suggestions from specialists and consultants.

This report includes five main sections:

Part I: Overview of the Vietnamese business environment in 2009.

This part provides an assessment of the business environment based on macro economic indicators such as: economic growth rate, import and export quotas, company development, price market and Government stimulus packages.

Part II: Enhancement of competitiveness for companies after the global economic crisis.

This part indicates the affect of the global economic crisis on firms’ businesses and solutions adopted to deal with this challenge. One of the main solutions was innovation.

Part III: Assessment of firm’s innovation capacity.

This analyzes will focus on the five sectors in which innovation plays the most important role in growth: garments,



food processing, electronics, banking and manufacturing of motorbikes and motorcycles.

Part IV: Innovation and technology application issues in some sectors.

Three sectors were selected including support industry, electronics and banking. Besides analyzes of their development, this report also assesses the application of technology and changes within these three sectors. In addition, this report also discuss on issues of protection of industrial property rights which are related to the innovation's process in Vietnam.

Part V: Forecast, conclusion and recommendations.

This part is not only focusing on forecast for world economy and Vietnamese economy in 2010 but also recommends solutions for market and price stabilization. In addition, recommendations to government and suggestions for companies are also indicated in this part.

Vietnam Business Annual Report 2009 is a research product of the Enterprise Development Foundation (EDF) of Vietnam Chamber of Commerce and Industry and was part of a joint program with the Ministry of Science and Technology. This report was also implemented with the cooperation of the General Statistic Office (GSO) and the Asian Competitiveness Institute of Lee Kuan Yew School of Public Policy under the National University of Singapore. The Enterprises

Development Foundation acknowledges the contributions of its research team including Dr. Pham Thi Thu Hang, MA. Le Thanh Hai, Ms. Nguyen Thi Thu Huong, MA, Doan Thi Quyen and experts including: Dr. Duong Thu Huong – General Secretary of Vietnam Banks Association, Dr. Tran Quang Hung – General Secretary of Vietnam Electronics Association, PhD. Pham Quang Ngoc – VCCI, MBA. Nguyen Viet Phong – GSO, Mr. Pham Minh Thuy - Market and Price Research Institute, MA. Le Khanh Van – National Center for Scientific & Technological Information (NACESTI).

We would also like to express our gratitude to Dr. Doan Duy Khuong – Vice President of Vietnam Chamber of Commerce and Industry, Associate Prof.Dr. Bui Quang Tuan – Vietnam Institute of Economics, Associate Prof.Dr. Nguyen Ngoc Son – National Economics University, Dr. Mai Thanh Hai – President of Foreign Invested Enterprises Association, Dr. Nguyen Minh Tuan – Vice Director of EDF/VCCI, MA. Pham Dinh Thuy – GSO for their consultation for the improvement of this report.

Once again, The Vietnam Chamber of Commerce and Industry would like to express our gratitude to the United Nation of Industrial Development Organisation (UNIDO), Housing Construction Investment Joint Stock Company and VCCI Intellectual Property Sole Member Company Limited (VCCI-IP Co.Ltd) in publication this report.

ENTERPRISE DEVELOPMENT
FOUNDATION

ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asia Nations
CIEM	Central Institute of Economics and Management
EU	Europe United
FDI	Foreign Direct Investment
FII	Foreign Indirect Investment
GDP	Gross Domestic Product
GO	Gross Output
GSO	General Statistics Office
IMF	International Monetary Fund
IT	Information Technology
CPI	Consumer Price Index
PCI	Provincial Competitiveness Index
R&D	Research and Development
SME	Small and Medium-sized Enterprises
SOEs	State Owned Enterprises
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Programme
VA	Value Added
VCCI	Vietnam Chamber of Commerce and Industry
VSIC	Vietnam Standard Industrial Classification
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

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EXECUTIVE SUMMARY

Overview of the Vietnamese business environment in 2009

In 2009, the GDP growth rate was 5.32% and did not meet the initial targeted growth rate of 6.5% as planned in the National Assembly meeting session 4. However, the growth rate was 0.32% higher than adjusted targeted growth rate.

Both export and import turnovers declined in 2009 because of a decrease in consumption in the world market. The product export turnover in 2009 was estimated to reach 56.6 billion USD and to decline 9.7% compared to 2008. The import turnover was estimated to reach 68.8 billion USD in 2009, a decline of 14.7% compared to 2008.

Although in 2009 the economy recovered slowly, the number of new companies established still reached a high level, with nearly 86,487 newly established units and a gross capital of 515 thousand billion VND, which is much higher in previous years. Therefore, at the end of 2009, the total companies registered in Vietnam reached 463,842 and the total registration capital was 2,165.6 thousand billion VND. Compared to 2008, the number of newly registered companies increased approximately 30%, however the registered capital declined 9.6%.

By the 12th December 2009, there were 839 projects gaining investment certificates with

a total registered capital of 16.34 billion USD. Although that was only 24.6% of that achieved in 2008, it was considered a high rate in the context of the economic crisis. In 2009, there were 215 projects registered for increasing investing capital with a total added capital of 5.13 billion USD, accounting for 98.3% in comparison to that of 2008. Counting both new and added capital, in 2009 foreign investors registered 21.47 billion USD for investment into Vietnam: 30% of that registered in 2008.

The consumer price index (CPI) in 2009 increased by 6.88% in comparison to that of 2008 (which reached the lower level in comparison with the government's target of limiting inflation under 7%). In general, the movements of the market price in Vietnam in 2009 stayed relatively stable in comparison to that of previous years.

Aiming at resisting economic recession and speeding up recovery from crisis, in 2009 Vietnam's government made significant decisions to assist companies in overcoming difficulties and challenges resulting from the global economic crisis such as the 1st stimulus package. Total stimulus package was estimated 143,000 billion VND (equal to 8 billion USD). National experts and international financial institutions highly appreciated the first stimulus package from Vietnam's government, which helped Vietnam's economy escape from the recession and become one of the few nations maintaining a positive growth rate.

However, some revealed limitations of the stimulus package.

2009 was the fifth time in a row that VCCI cooperated with the project "Vietnam Competitiveness Initiative" in announcing the Provincial Competitiveness Index (PCI) to evaluate the provincial governance capacity aiming at creating favorable business environment for companies. Noticeably, some provinces climbed to higher positions. The report on PCI in 2009 indicated where administrative procedures had the most significant affect. However, apart from efforts to "upgrade level" the improved sectors in the passing years, it is a must for localities to make a breakthrough in the three important aspects to reach the goal of in-grade PCI. Three industries are: Transparency, Reduce unofficial cost and proactivity of provincial leadership

According to Doing Business 2010, produced by the International Finance Corporation (IFC) and the World Bank (WB), the business environment in Vietnam needed to improve more. In, 2009, Vietnam was 93rd out of 182 economies which wasn't much of a change from 2008. In the Global Competition Index (GCI) by the World Economic Forum, Vietnam ranked 75th out of 133 nations and economies. Although GCI decreased 5 points, many factors improved. However, according to the UNCTAD, Vietnam ranked 11th (a fall 5 of points in comparison to 2008) but still stood in the top 15 most attractive countries concerning multinational investment.

Enhancement of competitiveness for companies after the global economic crisis

Unlike the results of two surveys of 200 enterprises in 2008 and 2009 show companies felt their business performance was most influenced by the "instable

environment of the macro-economy and unpredictable fluctuations of the market". Companies faced other major challenges such as increased costs of inputs and slowdown in market demand and, as a result, increased cost of funds. Cost of materials and fuel, as well as logistics, also remained major pressures in 2009. 63.7% of companies surveyed considered their businesses were deeply influenced. In 2009 there was 61.6% of surveyed companies obtained loans and 67.5% of them was satisfied with more than 50% loan demand (where as this ration was 43.9% of companies in 2008). Common problems were: "*Interest rate too high*", "*Lack of mortgaged properties*" and "*Problems with business plan*".

Companies undertook active solutions to gradually step out of their current difficulties. "Consolidating relationships and exchanging information with suppliers" and "providing reliable support to customers" are two solutions that companies were most interested in. Notably, 26.8% of companies considered they had gained significant profit increases and 56.8% considered they had gained moderate profit increases due to the above measures. Only 3.2% of companies confirmed they chose the right measures as they resulted in very high profit increases

Following plans made in 2008, Vietnamese companies carried out a number of measures as mentioned above. As a result, the number of companies which maintained their existing levels of production was 10.5% higher then planned. The number of companies which expanded production was 9.0% less than planned, but still at a high level, standing at 34.2% of surveyed companies. These is a trend of expanding production size in 2010. Up to 11.6% of companies changed their business strategy to "*Enhancing core business of the company*" and over 54.2% of companies

will have a strategy to change their production structure.

As the recovery sign of the economy in 2009, labors in surveyed company continues increase from 2007. In 2008, 73.8% of companies increased maintained their regular labor size, the number was 78.1% in 2009.

In 2009, firms continued to innovate across three areas: 1) Product innovation (goods or services); 2) Process innovation; and 3) Organizational restructure. As in 2008, almost all firms' carried out the innovation by their own capacities. In addition, the percentage of companies which have relationships with other companies or domestic or overseas research institutions is still very limited.

The main obstacles to innovation are: *the cost, the knowledge and the market.*

Assessment of firms' innovation capacity

In order to assess the firms' innovation capacity, the Vietnam Business Annual Report 2009 analyzed five basis sectors of the economy as follows: Food processing (production of food, beverages and cigarette), Garments (including textiles), Motorcycle and motorbike manufacturing, Electronics and Banking (including investment funds and security service company). This analysis uses data from the "Company census database 2007 and 2008" which is conducted annually by GSO.

Regarding technological capacity, productivity was improved within the five sectors but the levels of technology were very low (low ratio of fixed assets per employee). Capital productivity was not high, which indicates low capital utilization and backward technology. Investment in

fixed assets and technology was also very low. The proportion of scientific staff - the human resources for innovation - was very low and less than 10% in many sectors. FDI firms own technology and capital abroad so this sector had a higher technological level than the average of the five sectors.

A few firms implemented technological changes and engaged in R&D was very limited. This was also the situation in FDI firms although this sector is likely to have a higher level of technology.

The percentage of firms with internet access and using their own website increased more and more. Especially FDI firms which had 100% internet access. However, the application of e-commerce is almost at a starting level. Companies need a legal framework and the wide cooperation of firms, policy makers and business associations to development these activities in the future.

Application of IT within firms was one of brightest points in the 2009 company survey. The proportion of firms using computers with internet access is high. Firms were more active in using online order forms but this rate is still limited in comparison to the potential. The highest effective information technology utilization was found in FDI firms.

Innovation and technology application issues in some sectors

Supporting Industries

Supporting industry (SI) is still a weak point of Vietnam's economy. In theory, SI creates the value added for industrial production, contributing to developing production capacity and creating more jobs. However, 70 to 80% products of SI of assembling

enterprises in Vietnam are still being imported currently. That said, there are some strong points coming from SI companies such as a hard-working, skilled labor force, a willingness to learn and being creative with human resources to compensate for the backward technology. However, SI companies still have many weaknesses such as: lack of trading strategy to develop, which leads to a lack of comprehensive investment in equipment, and limited marketing capacity, not actively chasing orders and approaching clients nor having effective methods for doing so.

In order to develop SI, many solutions need be implemented from training and technological transfer through to taxation , financing policies and business linkage. Solutions need to be created actively from both companies and governmental agencies.

Electronics

In 2009, although influenced by the global economic crisis, demand for electronic products on world markets decline, exports decreased in the early months but has recovered strongly in last year. In particular, there have been many profound changes in the development of new distribution channels through electronic supermarket business by investing in the country.

In fact, apart from the electronics foreign-invested companies using high-tech and having frequent technological innovation to ensure quality of export products, the Vietnamese electronics enterprises use only technology of medium and low level. Besides reasons of lack of financial resources, a serie of inappropriate policies on science and technology the investment's policy of Government was also a factor hindering Vietnam's innovation and technology applications in electronic sector.

To improve technological innovation, product quality of electronic industry, which can participate in the value chain, firms need to specialize, focusing on the core product which the companies have advantages, make mor capital investment for research and development. The government needs a key investment for the technology strategy by establishing funds to support technology development, innovative training system, improving the quality of human resources.

Banking

Total assets of the banking system have increased rapidly, from 57,645 thousand billion VND in 1994 to 2,536,617 thousand billion VND on 30th June 2009 - 44 times higher.

Diversifying products and reforming bank services is essential to increase the competitiveness of banking firms at the moment. There are now about 300 services offered by Vietnam's banks, but the short-and long-term deposits are still the main bank services, the other services were starting to get known by companies, although they haven't yet used them. The problem is not only about marketing, but also that these services are not well developed in Vietnam. For example, more than 40% of companies which were asked knew about the "Payment management" service but the number of companies using the service could be counted on one hand. Most banks are equipped with modern machines and applied core-banking systems. Therefore, the banks can develop many new products based on advanced technology. Despite the advantages of international integration, banks face many difficulties in technological innovation and application such as a lack of skilled IT labor, and a lack of investment funding.

Intellectual Property Rights protection in companies

One of the weaknesses of Vietnamese companies is the lack of awareness of the value of their own achievements generated from their investments, and even those who are aware of it do not know how to protect their achievements from being copied by others.

The types of industrial property protection in Vietnam focuses on trademarks - over 84% of registration. Number of patents registration accounts for 9%, registration of industrial designs was 6% and registration of a utility solution accounted for 1% only. These figures show that businesses in

Vietnam made not so many new products/services, especially those are new to the market.

To improve protection of intellectual property rights, Vietnam enterprises should actively in the management and exploitation of intellectual property rights and to understand that accepting the high standards of trade related intellectual property convention (TRIPS) by WTO is an indispensable rule of international economic integration. Besides, it should promote the governmental development program to support the intellectual property protection, enhance the dissemination of information from agencies, organizations and business.



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- Products of houses includes flats, garden houses, villars, penhouses,... With diversify of material, Housing bring new awareness to consumers about synchronism, useful, diversify of products, plentiful designs and suitable cost prices.
- Housing door was and continues to control the market in the North, especially in Hanoi, Hai Phong, Hai Duong,...This product is used in big national projects in many cities, urban areas, apartment building, villars, garden houses, hotels and many important projects.

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The exertion is highlighted by changing model from parents and subsidiary company to multies economics group.



*Housing Group achieved certificate of merit
from the Government in year 2009*

PART I

OVERVIEW OF THE VIETNAMESE BUSINESS ENVIRONMENT IN 2009

1. Economic growth and import-export activities

At the twelfth National Assembly of Vietnam Socialist Republic of Vietnam, meeting session 4 released Resolution No 23/2008/NQ-QH12 regarding the socio-economic development plan for 2009, The

Gross Domestic Product target in 2009 was 6,5%. On 19/6/2009, based on the evaluation of the socio-economic situation in the first four months of 2009 and an estimation of the economic situation over the next months, the National Assembly Session XII released Resolution No 32/2009/NQ-QH12 which agreed to adjust the speed of economic growth in 2009 at 5%.

Table 1.1: Key indicators of socio-economic growth over period 2008-2009

Unit: %

Indicator	Year 2008	Year 2009		
		Initial plan*	Adjusted plan**	Implementation***
(1) Gross Domestic Production (GDP) In there:	6.2	6.5	5.0	5.32
- Agriculture, forestry and aquatic production value	4.1	2.8		3
- Industrial production value	6.1	7.4		7.6
- Total retail sales of goods and services	7.2	7.3		18.6
(2) Total export turnover	29.5	13	3.0	-9.7
(3) Total import turnover	28.3			-14.7
(4) Social realized investment capital	22.2			15.3
(5) Consumer Price Index in December of the current year compared to that in December of the previous year	31.0	15	10	6.88

Source:

* Resolution No 23/2008/NQ-QH12 on socio-economic development plan 2009 issued by National Assembly on 6th November 2008.

** Resolution No 32/2009/NQ-QH12 on adjustment of general objectives, several economic targets issued by National Assembly on 19th June 2009.

*** General Statistic Office of Vietnam.

At the beginning of 2009, the forecast of international organizations reflected that the Vietnamese economic growth in 2009 would be lower than the target planned in the National Assembly - Session 4. The World Bank forecasted that the GDP of Vietnam in 2009 would be 5.5% and the Asia Development Bank forecasted that the GDP would reach 4.5%. The International Monetary Fund forecasted the GDP could reach 3.3% for the same period. All these forecasts were based on the progress of the financial crisis in the US and in Western Europe with the theory that FDI and export turnover would play an important role in the economy after Vietnam joined WTO. Therefore, the global financial crisis deriving from the US had a serious influence on the speed of economic development in Vietnam.

Table No 1.1 shows that in 2009, growth rate of GDP was 5.32%, and did not meet the initial targeted growth rate of 6.5% which was planned in National Assembly meeting session 5. However, the growth rate was 0.32% higher than adjusted targeted growth rate which was set out in National Assembly meeting session 5. The World Bank's forecast on economic growth rate of GDP Vietnam in 2009 was more accurate than those of other international agencies.

1.1. Industrial and Construction outputs

In 2009, although Vietnam industrial sectors made much effort to overcome the world economic crisis, the Industry strongly suffered from it. Government, authority agencies and sectors made many timely policies to support the loan interest rate and widen the domestic consumption market through investment and consumption stimulate packages: mobilizing people to respond to the policy named "Vietnamese must use products made in Vietnam" helped improved production and business results and they continue to growth gradually.

In 2009 the industrial production value was estimated at 696.6 thousand billions VND, increasing 7.6% on 2008. The state economic sector, non-state sector and foreign invested sector, increased 3.7%; 9.9% and 8.1% respectively (with gas and petroleum increasing 9.2% and others increasing 8%).

Some important industrial products which showed higher growth than the average included: air conditioning increased 41.8%, Liquefied Petroleum Gas (LPG) increased 39.3%, refrigerators and freezers went up 29.5% and soap, cement, round steel, electronic production, cigarette, clean coal, crude oil, clean water and beer increased respectively 20.2%; 19.2%; 19.1%; 11.9%; 10.5%; 9.9%; 9.8%; 9.7%; 8.5%

Some industrial provinces and cities achieved higher growth than the country average: Quang Ninh increased 15.8%; Thanh Hoa, Dong Nai, Binh Duong and Khanh Hoa increased relatively 13.9%; 10.6%; 10.3%; 10%; Ha Noi gained 9.4%; Can Tho went up 9.1% and Da Nang, Ho Chi Minh City and Hai Phong raised respectively 8.3%; 7.9%; 7.7%. In addition, some other provinces have lower growth rate, such as: Hai Duong increased 6.2%, Phu Tho, Vinh Phuc and Ba Ria-Vung Tau increased relatively by 5.3%; 5%; 3.1%.

1.2. Retail goods and consumption services

Commercial activities and services were more active in last months of the year due to the recovery of domestic production, increased consumption demand and stable prices of product and services. The annual gross retail and the consumption service revenues are estimated to reach 1,197.5 thousand billion dong and increase 18.6%; it could reach 11% higher than 2008, if the market price hike was excluded.

The increase in gross retail and consumption service revenues in 2009 is contributed to by the growth of the household business sector with 20.3%, the private sector with 22.9%, the state sector with 1.4%, the foreign development investment sector with 9.5% and the collective sector with 18.8%. Regarding the sectors, the retails business increased 18.6%, hotels and restaurants increased 18.4%, services and tourism gained 20.3% and 1.9% respectively.

1.3. Import and Export

As the result of decreased product consumption in the global market, prices of many products rapidly declined, so exporting turnover in first 9 months of 2009 was only 41.4 billion USD, declining 14.8% in comparison with the same period in 2008. However, over the last months of the year, the situation seemed improved. Exporting turnover in November reached nearly 4.7 billion USD 10.2% increase compared to the same period of the previous year. December witnessed the highest level of the year at 5.25 billion USD, 12% increase over the previous month and up 12.5% compared to December 2008. This was mainly a result of increased key product exports, including increases of 90 million USD in textile products, 80 million USD of rice products, 77 million USD of shoes, 67 million USD of coffee and 33 million USD of crude oil. In general, the 4th quarter of 2009 saw the turnover of product export increase 7.1% in comparison with the 4th quarter of 2008. Therefore, although the turnover of product exports in the last quarters declined rapidly, the turnover of exporting products in 2009 is estimated to reach 56.6 billion USD and decline 9.7% compared to 2008.

Similarly, the turnover of imports in the first 8 months only increased 41.8 billion USD, declining 29% compared to the same period of last year. However, due to the recovery of the global economy, prices of some products have increased. On the other hand, the domestic economy reached a good level, so consumption increased which meant the turnover of imports in September, October, November and December kept growing faster comparing to the same period last year, with the respective growth rates at 13.9%, 14.5%, 44.5% and 15.7%. Thus, generally the turnover of imports is estimated to have reached 68.8 billion USD in 2009, declining 14.7% compared to 2008. This includes 43.9 billion USD of domestic business, a decline of 16.8%, and foreign investment capital of 24.9 billion USD, declining 10.8%.

Of the product import categories in 2009, mechanic tools and accessories contributed 29.5% the total importing turnover; materials contributed 61.3%; consumer products 8.7% and finally gold added 0.5%. The main 8 importing countries accounted for 85% of the total turnover of 2009 including: China with 16.1 billion USD, up 2.7%; ASEAN with 13.4 billion USD, down 31.3%; Japan with 7.3 billion USD a decrease of 11.3%; Korea with 6.7 billion USD, declined 5.3%; Taiwan with 6.2 billion USD, down 25.9%; the EU with 5.5 billion USD, an increase of 2.2%; the USA with 2.8 billion USD increased 9.1% and Australia with 1 billion USD, declined 24%. Although the turnover of imports has decreased faster than exports, it was estimated that the deficit of goods in 2009 would remain at 12.2 billion USD, decreasing 32.1% in comparison with 2008 and equal to 21.6% of total exports in 2009.

2. Enterprises Development

2.1. The registration of company establishment

Although the economy only recovered slowly in 2009, the speed of registration of new companies still reached a high level, with nearly 86,487 newly established and the gross capital at 515 thousand billion VND, which is much higher than previous years (see Picture 1.1 and Table 1.2). Therefore, at the end of 2009, the total companies registered in our country reached 463,842 companies and the total registration capital was 2,165.6 thousand billion VND. Compared to 2008, the number of newly registered companies increased approximately 30%, however the registered capital declined 9.6%. This might be due to the economic crisis: the unemployed choose to start-up their own businesses with small a capital investment. However, it also showed the efforts of the government in reforming administration and creating favorable business condition for citizens to more easily join the market.

6 However, despite these strong increases, there remained a series of shortcomings which made the “health” of many companies in this sector unstable, such as: small production scale, outdated technology, poor ability to mobilize and save capital, weak management skills and failure in attracting highly-qualified workers. According to the Ministry of Planning and Investment, the above shortcomings means that the competitiveness of this sector has not met the requirements of the current economic development.

2.2. Vietnam Report VNR-500

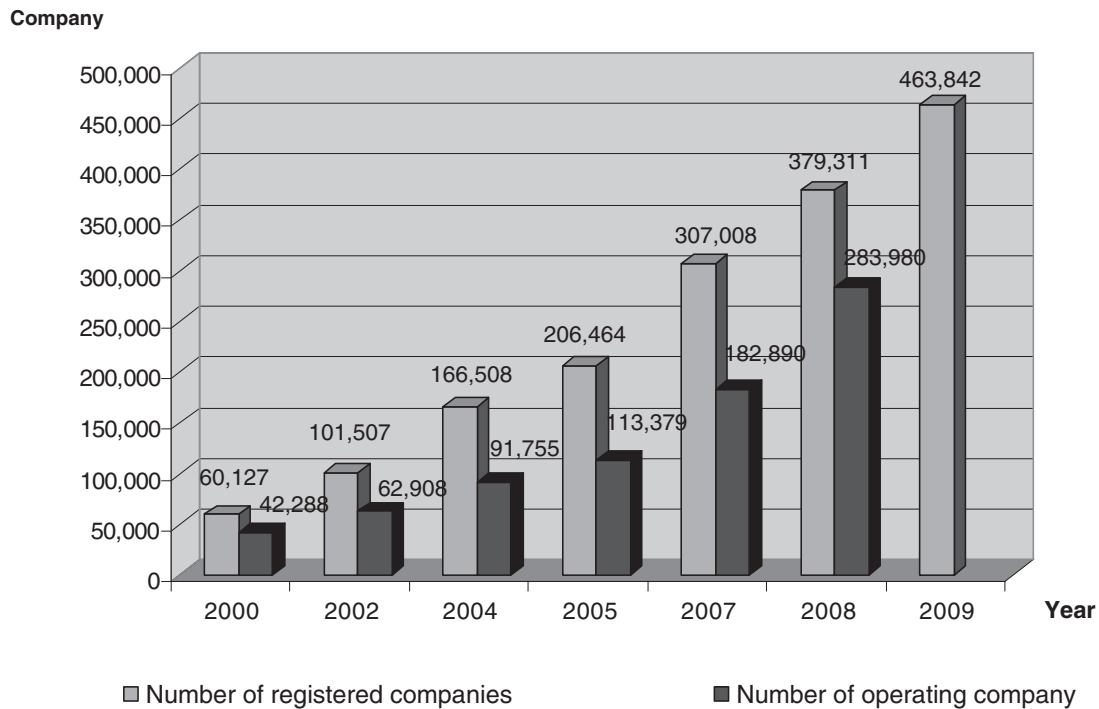
Although Vietnamese companies are generally still small, according to the Vietnam Report VNR 500 – which lists the 500 largest companies in Vietnam in 2009 - the 10 largest companies are also ranked in the top 1,000 largest companies in the world, as listed by Fortune 1,000 based on their revenues. This is considerable progress for Vietnamese companies as they become integrated into the global economy; especially in the context of the economic crisis which started in 2008. This is a remarkable success for Vietnam.

Regarding business sectors, the VNR 500 showed that some important sectors remaining in the “Top” positions, such as Banking and Finance, Gold and Silver, Real Estate, Steel, Seafood and Telecommunications.

Particularly, in the real estate and securities sector the number of enterprises in the list decreased rapidly compared to the previous year, which is unsurprising given the development of these sectors in the difficult period beginning in 2008. According to the evaluation by a researchers team, State Owned Enterprises and Corporation are still account for a high proportion in the list of top 500 Vietnamse companies (46.4%).

Top 10 Enterprises:

1) Petrol Vietnam; 2) Vietnam Petroleum Corporation; 3) Vietnam Electricity Corporation; 4) Vietnam National Coal - Mineral Industries Group; 5) Vietnam Posts and Telecommunication Group; 6) Saigon

Figure 1.1: The number of registered and operating companies through the years**Table 1.2: The number of companies rising from 2000 to 2008¹**

Year (s)	State Enterprises	Private companies	Limited companies	Limited companies with one member	Joint Stock Company	Partnerships	Total (each year)
2000	6,928	33,003	19,082		1,156	3	60,172
2001	27	7,100	11,121	0	1,550	2	19,800
2002	12	6,532	12,627	59	2,305	0	21,535
2003	20	7,813	15,781	98	4,058	1	27,771
2004	6	10,405	20,190	125	6,497	7	37,230
2005	8	9,295	22,341	292	8,010	13	39,959
2006	7	10,320	25,762	902	9,669	3	46,663
2007	-	10,013	25,756	8,404	14,733	1	58,907
2008	4	8,895	25,449	14,299	16,670	1	65,318
2009							86,487
Total							463,842

Source: *The Center of Information, Agency of Company Development, Ministry of Planning and Investment.*

1. Total number of newly registered enterprises excluded non agricultural cooperatives and foreign invested enterprises. 2007 figures are reported in the GSO primarily report on survey on economic entities and administrative units as of July 31, 2007. Unit: entity.

Jewelry Company; 7) Vietnam Agriculture and Rural Development Bank; 8) PV Oil; 9) Viettel Telecom; 10) Vinashin².

2.3. Renovation and operation of State-Owned Enterprises

Renovation of State-Owned Enterprises

According to the Enterprise Law 2005 (valid from 1 July 2006) the deadline for state-owned enterprises to transfer to limited company or joint stock company status operating under this Law, is July 1st 2010. According to the plan approved by the Government, from 2007 to 2010 it is necessary to restructure more than 1.500 companies; among them 900 companies will be equitized. In reality, the process of equitization is slow and the speed of the process declined rapidly during the three years from 2007 to 2009. During 2007 and 2008, only 266 companies were restructured, among them 150 companies were equitized. According to insufficient statistics, in 2009 it is estimated that, in the whole country, only 105 companies were restructured; among them, 60 companies were equitized, achieved 8.4% plan of period 2009-2010³.

The slow equitization was caused by limited awareness of the 100% State-owned enterprises on the necessity of re-arrangement. The negative perception of budget subsidiaries and worries about losing privileges of enterprise's leaders and some management authorities still remained. Many ministries, sectors, local and state corporations have not been enthusiastic about equitization. In addition, the global economic crisis has caused difficulties which force companies focus on handling the crisis and maintain their current

production. The transfer of ownership of this moment may depreciate the value of the company. Moreover, many companies have not identified yet the vision of the equitization, so an hurry equitization may cause transferring State assets to private sectors.

Another reason of slow equitization of SOEs is that the time to equitize a company is quite long. Company's capacity for mobilizing capital from outside organizations and individuals is limited. At the end, a state capital still takes a large proportion of the charter capital of equitized companies, accounting for about 52%.

Among companies who found difficulties in the renovation process, many of them faced financial problems. Due to business failures leading to state capital losses, bank bad debt for many years and many unprocessed properties, it is difficult to identify the value of companies. Even for the case, when value of companies has been already identified, there is no capital left to continue to equitize these companies.

According to the Instruction of the Prime Minister, SOEs which have not equitized by July 1st 2010 will be transferred into one member limited liability companies managed by management Ministries and provincial people committees, and equitized after 2010. All state owned farms and forestry SOEs also have to transfer to one member limited liability companies before July 1st 2010⁴.

State Enterprise's operations

According to GSO by 31 December, 2008, the country have 3,328 operating SOEs and 118 State owned Groups and Corporation.

2. *Source:* <http://www.vnr500.com.vn>

3. *Source:* <http://www.tinkinhte.com/nd5/detail/doanh-nghiep/tin-hoat-dong/sap-xep-co-phan-hoa-doanh-nghiep-nha-nuoc-se-quyet-liet-minh-bach-hon/81149.029030.html>

4. Direction No 854/CT-TTg on June 19th, 2009 issued by Prime Ministry.

The summary of monitoring report *"Implementation of government policies on managing and using state capital and assets in State Owned Groups and Corporations"* was presented by the National Assembly Standing Committee in the XII National Assembly, meeting session 6 in 2009 showed that the effectiveness of state capital and property performance is lower than in other sectors, which is not commensurate with their scale, position and role in the economy. These companies are holding a large proportion of state property including land and mines. 88 State Groups and Corporations are holding about 375,000 hectares of land; meanwhile 93 out of 99 groups and corporations are holding more than 485,000 billion VND of state capital. Generally, companies gain business benefit and the growth rates and revenues in every year are higher than the previous.

The business results are assessed based on the profit rate on the capital of corporations and groups in 2008, which is categorized as follows:

- + 35/91 units gained more than 15% profit rate⁵.
- + 15/91 units gained profit rate of 10-15%.
- + 20/91 units gained profit rate of 5-10%.
- + 18/91 units gained profit rate under 5%.
- + 3/91 units made a loss.

Nearly 25.2% of units reported that they made a profit rate gain of under 5% or had a negative profit rate and 47.2% of units reported they gained profit under 10%. Thus, a large proportion (45.05%) of state corporations and groups operate with low effectiveness (the profit rate on the equity is under 10%), which has affected the general effectiveness in the state economy.

Additionally there remained many worrying signs, such as: some companies (dealing with transportation) met financial problems which have not been handled for many years, causing the loss of equity; some companies (in the field of construction, for example) have unstable financial structure - their payable loans are many times higher than their equity so their payment ability is not assured. In 2006, there were 38 groups and corporations (accounting for 40% of the total groups and corporations) with capital adequacy ratios exceeding three times. In 2007 and 2008 there were 31 units having the same problem. Total debt of many groups and corporations is ten times higher than the standard of capital adequacy ratios. Instead of focusing on developing their core competencies many State Group invested in securities, banks, insurance or joint capital in investment fund, which cannot earn much profit. In other words, they have neglected their main duties and involved themselves further in other fields where other economic sectors should have been encouraged to take part in.

The "hot" development and the expanding business to area and operation exceeded the financial ability brought to many risks. When the market fluctuations happened, it was evident that there were shortcomings in the business administration of these companies. The situation in which a subsidiary company invests back to the parent company, or parent companies control "grandchildren" companies, made it more confused in realising the ownership right.

In 2009, SOEs and companies holding influential portion of State shares were to be given an important role in the execution of the government's stimulus packages. The business results of these companies would significantly affect the effectiveness as well

5. There were 91 out of 99 enterprises report the ratio of profit to total capital.

as the recovery of the economy. However, it is clearly seen that except revenues from some main resources, namely petroleum and telecommunication sectors, the budget's contribution of SOEs remained modest in comparison to other economic sectors. Clearly, the above contribution levels are not commensurate with the advantages compared with other economic in term of land, credit access, rights to natural resources and exporting-importing important products, as well as advantages in contracting large projects.

Bad business groups have effectively used the lowest capital investment, but the opportunity and the most favorable conditions to access credit sources as well as investment programs in the budget or derived from bank books, not only negatively affect the quality of economic growth, but also the germ causing inflation.

Starting from the situation, on November 27, 2009 The National Assembly passed Resolution No. 42/2009/QH12 on improving the effectiveness and efficient implementation of policies, legislation management, capital use, load production in state corporations, state corporations.

3. Significant decrease in foreign direct investment (FDI)

3.1. Status of issuing investment certificates in 2009

Up to the 15th, December 2009, there were 839 projects getting investment certificate (IC) with a total registered capital of 16.34 billion USD. Although it just accounted for 24.6% of that in 2008, it was considered a high rate in context of the economic crisis.

In 2009, there were 215 projects registered for increasing investing capital with total added capital of 5.13 billion USD, accounting for 98.3% in comparison to that in 2008.

Counting both new and added capitals, in 2009 foreign investors registered for 21.47 billion USD investment in Vietnam, accounting for 30% in comparison with that in 2008.

In terms of investing sectors: Hotels and catering services were the most attractive sectors to foreign investors with 8.7 billion USD of newly registered and added capitals, in which there were 32 projects of newly issued capital with a total of 4.9 billion USD, and 8 projects of added capital with a total capital of 3.8 billion USD. Real-estate businesses ranked 2nd with 7.6 billion USD of newly registered and added capitals. The registered capital of the manufacturing sectors ranked 3rd in 2009 with 2.97 billion USD, comprising 2.22 billion USD of newly registered and 749 million USD of added capital.

In terms of investing partners: In 2009, there were 43 nations and territories investing in Vietnam. The biggest investors were: America, with total registered capital of 9.8 billion USD, accounting for 45.6% total investment capital in Vietnam; the Cayman Islands stands at second with total registered capital of 2.02 billion USD, accounting for 9.4%; Samoa stands at third with total registered capital of 1.7 billion USD, accounting for 7.9%; Korea stands at the fourth place with 1.66 billion USD of registered capital, accounting for 7.7% total registered capital.

In terms of investing regions: The most attractive region to foreign investors in 2009 was Ba Ria-Vung Tau with 6.73 billion USD of new registered and added capital. Next were Quang Nam, Binh Duong, Dong Nai and Phu Yen with capital scales of 4.1 billion US, 2.5 billion USD, 2.36 billion USD and 1.7 billion USD respectively.

3.2. Operation of FDI companies

In 2009, it was estimated that FDI projects were given 10 billion USD accounting for

87% in comparison to that in 2008. Exports from the FDI sector (including oil and gas) reached 29.9 billion USD in 2009, 86.6% of the 2008 figure and accounting for 52.7% of total national export. Excluding crude oil, the FDI sector exported 23.6 billion USD, accounting for 41.7% of total exports and 98% of that in 2008. Imports from the foreign investment sector in 2009 reached 24.8 billion USD, 89.2% that of 2008 and accounting for 36.1% of total national imports. In 2009 the foreign investment sector had trade surplus of 5.03 billion USD.

4. Price market fluctuations and its impact⁶

4.1. The market prices of consumption goods and services in Vietnam in 2009

According to statistics provided by the General Department of Statistics, the CPI in December, 2009 increased by 6.52% in comparison to December 2008, and the price index in 2009 increased by 6.88% in comparison to 2008 which reached the level lower than the government's target (by 7%). This is a relatively low increase in Vietnam in the period from 1991 to now (see Table 1.2).

The USD index in December 2009 increased by 10.70% in comparison to December, 2008 and the USD index in 2009 increased by 9.17% in comparison to 2008. Especially, the gold index rised strongly in December 2009, by 64,36% in compared with 2008 (19,16%) The rise in gold and USD prices was high in comparison to the price movements in recent years.

The four main reasons for the movements of the CPI in 2009 were as follows:

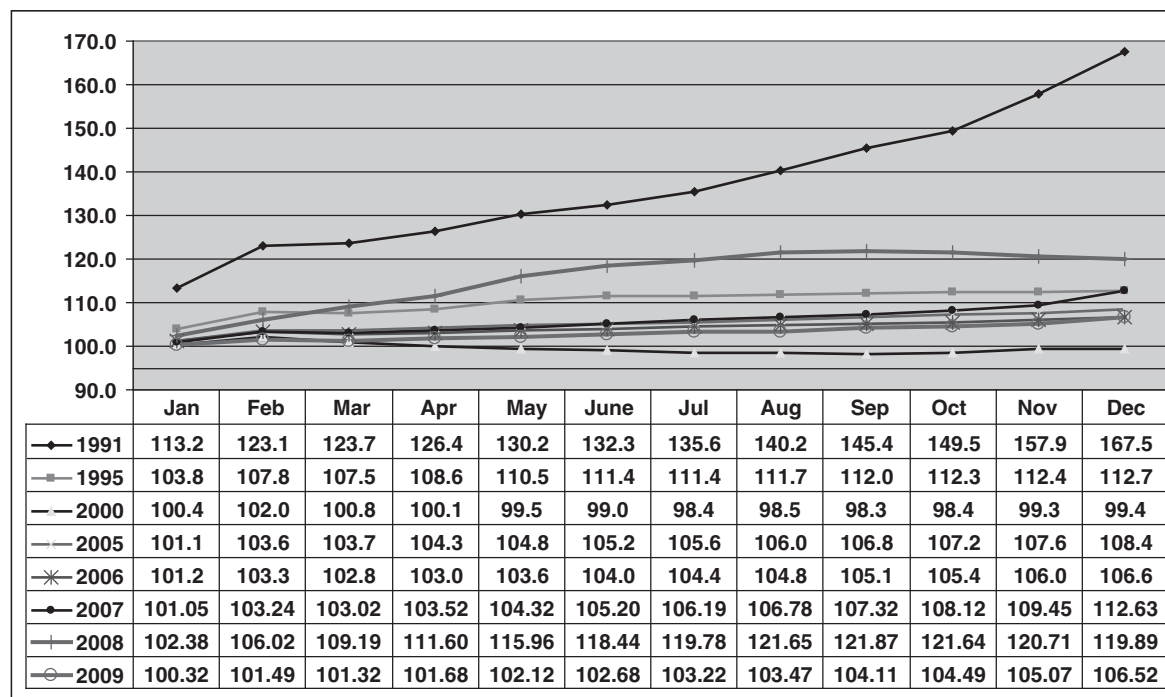
- **Firstly**, the movements in the market price of goods and services in Vietnam greatly depended on the movements of

fuel and raw materials prices in the world market. Vietnam's total annual export and import turnover now is about 160% GDP. The import rate of many basic materials were extremely high, for example petroleum imports stood at 100%, steel billet at 60-70% and raw materials for medicine at 90%... Thus, the movement of these goods in the international market led to an increase in the domestic prices. On the other hand, the increase (or decrease) in the price of agricultural products and foodstuff worldwide affected Vietnam and exporters accordingly raised (or reduced) the purchasing prices to meet the demand of export. This directed the movements of the market prices of goods and services in Vietnam's domestic market as described above.

- **Secondly**, the government's solutions (adjusting monetary-financial policy, stimulus packages, supporting companies...) has aimed at stabilizing the situation, limited the negative impact of the international economic crisis on the national economy. Therefore, the market price stayed stable creating the trust amongst producers and consumers.
- **Thirdly**, Vietnam's economy witnessed the signs of recovery from recession (consumer and producer trust increased, stock markets thrived and FDI areas regained growth...) and stimulus packages began to generate effectiveness. Thus, market prices began to be under the control of the government.
- **Fourthly**, natural calamities and epidemic diseases nationwide, especially bird flu, blue-ear pig disease, floods and typhoons in the center area, etc., led to a decrease in demand in the market and an

6. Analyzied by Pham Minh Thuy – Market and Price Research Institute.

Figure 1.2: Vietnam's CPI across several years in comparison to that in December of the previous years



Source: General Statistic Office of Vietnam.

increase in production costs which certainly caused prices to rise.

4.2. Noticeable movement of particular goods

In general, the movements of the market price in Vietnam in 2009 stayed stable in comparison to those of the previous years. However, for some particular goods, price movements were remarkable, for example:

The gold price: 2009 was a year of fluctuations in the gold market. The average gold price in the world market in November 2009 was 1,135 USD/oz (equal to 139% in comparison to December 2008). The gold price on the 3rd December 2009 reached a peak of 1,227.5 USD/oz (the highest level ever). The big movements of the total market price of gold led to movements in Vietnam's gold price. In detail: the gold index in December 2009 increased 64.32%

relative to December 2008; Vietnam's gold price on 11th November 2009 reached the highest point ever at 29.3 million VND/volume and on the 3rd December 2009, when the world gold price was at the highest level, the price in Vietnam was 28.9 million VND/volume.

The petroleum price: The world petroleum price in 2009 showed slight movements in comparison to 2008 but had a trend of increase in general (average petroleum price in December 2009 was 74.88 USD/barrel, equal to 181.1% that in December 2008; average petroleum price in 2009 was 61.76 USD/barrel, equal to 63.7% only that in 2008). The increase in the world petroleum price caused Vietnam's retail price to rise. Moreover, in 2009, Vietnam's government applied the non-subsidy mechanism for oil and gas and allowed petroleum companies to set and use a price stabilization fund in the case of sudden

movements of the world price. Thus, Vietnam's recent retail price of oil and gas was continuously adjusted, following the movements of the world price, not to keep it stable as in 2008. This change helped ensure the sustainable development of Vietnam's petroleum market and bring companies doing business in petroleum sector in more active position.. In particular, Dung Quat Oil Refining Company (Petro Vietnam) sold the 1,000,000th ton of oil to the market on the 3rd December 2009. The official operation of Dung Quat Company will facilitate Vietnam's petroleum price stabilization more substantially.

The coffee price: The coffee price movements in the world market 2009 provided Vietnam's coffee sector good opportunity for coffee farmers and coffee exporters to gain large income despite the economic recession. However, due to not having "just in time" export, Vietnam's coffee exports were estimated to increase 1,168 thousand tons, equal to 1,170 million USD, increasing by 10.2% in quantity but decreasing by 19.0% in value in comparison to 2008. This was a lesson for companies to learn from in order to enhance their business effectiveness next time.

The rice price: The rice price of the world in 2009 witnessed the movements in slightly decrease trend. Thailand's average rice price for 5% broken rice in 2009 was 555.0 USD/ton (only equal to 85.4% that in 2008). With the above mentioned trend of the world rice price, Vietnam's rice export increased in the quantity but a decrease in the value. It was estimated at 5,947 thousand tons (the highest level ever) and 2,662 million USD (increasing 25.4% in quantity but decreasing 8.0% in value in comparison to 2008). During the last two months of 2009 the world rice price showed stable increase. This was a good opportunity for Vietnam's companies to promote export and increase foreign currency earnings.

The VND/USD exchange rate: The VND/USD exchange rate in previous years was used as a tool for Vietnam's government to leverage the economy. By allowing the continuous depreciation in domestic currency, the government encouraged domestic companies to expand their export, thanks to both cheaper export goods and import restrictions. Additionally, it encouraged foreign investors and limited the foreign currency withdrawal due to the higher buying price of USD but greater domestic currency earnings as selling USD.

Taking advantage of this situation, Vietnam's state bank managed the VND/USD exchange rate by announcing the inter-bank exchange rate and exchange rate vibration amplitude... to allow commercial banks to determine their own bid/ask rate. At the end of 2009, due to the extremely low inter-bank rate announced by the state bank, the VND/USD exchange rate set between the unofficial and official market rates increased significantly (sometimes reached over 20,000 VND/USD – 13% higher than the inter-bank exchange rate). As a result, exporting companies earning USD were not willing to sell USD to banks, causing a shortage of USD available for companies importing goods in USD and transactions difficulties in foreign exchange market.

Dealing with this issue, on 25th November 2009 the Governor of Vietnam's state bank announced the decision to raise the inter-bank rate to 17,961 VND/USD, an increase of 5.47% in comparison to that on 24th November 2009 and reducing the range of exchange rates from 5% to 3%. Thus, since 26th Nov 2009, the VND/USD exchange rate of commercial banks had increased by nearly 3.5% in comparison to that on 24th Nov 2009 (the ask rate by Vietnam foreign trade bank regulated on 26th November 2009 was 18,490 VND/USD, increasing by 3.38% in comparison to the previous day).

This solution resolved a number of difficulties of banks and companies conducting foreign currency transactions. Simultaneously, it eased the pressure of the USD price in the unofficial market.

Real-estate market: In general, Vietnam's real-estate market in 2009 developed poorly except for the markets in some places in Hanoi which showed better results from the end of September to November 2009.

4.3. Impacts of market prices fluctuations on the economic growth and company's business activities

The market prices fluctuation had certain impacts on national economic growth and company's business activities. Those impacts were:

- The relatively stable movements of the market and price in 2009 were considered the cause as well as the sign of stability of Vietnam's socio-economy. This stability indicated the great efforts of the government and especially given the context of the global economic crisis and with a number of economies witnessing serious recession.
- The export of key products such as rice, coffee, coal, crude oil, rubber etc. though increased in term of volume from 7% to 25%, but decreased in term of value turnover declined significantly from 8 to 19%, due to the low market. This caused a decrease the export turnover of the country. Given the world economic growth rate in 2009 was expected to fall by 1.7% - the sharpest decrease since the 2nd World War – and the world trade volume in 2009 was to drop by 6% - the greatest decline for 80 years, Vietnam's exporting turnover could be considered a recognizable achievement.

- According to the Ministry of Planning and Investment, Vietnam attracted foreign direct investment of 21.47 billion USD up to 15th Dec 2009, including newly registered and added capital projects. In the context of the global economic recession, investors tended to withdraw investment to preserve their assets. The case of Vietnam shows how they regained the trust in Vietnam's socio-economic stability and believed that Vietnam's economy would recover from recession and soon reach a high growth rate.

5. The government's stimulus package

5.1. Scale and content of the stimulus package

Aiming at resisting economic recession and speeding up recovery from crisis, in 2009 Vietnam's government made significantly important decisions to assist companies in overcoming difficulties and challenges resulting from the global economic crisis. The 1st stimulus package included:

- Reducing company income tax for small and medium-sized enterprises in 2009.
- Exemption company income tax for the first 9 months of 2009.
- Exemption personal income tax for the first 6 months of 2009.
- Cutting VAT by 50% for some specified goods and sectors.
- Executing urgent projects which had a high potential of accomplishment in 2009.
- Subsidizing 4% interest, delaying collection of basic construction investment advanced in 2009.
- Issuing bonds nationwide to supplement the budget for investment⁷.

7. Source: <http://www.sbv.gov.vn/vn/hotrolaisuat/hotrolaisuat.jsp>

Total stimulus package was estimated 143,000 billion VND (equal to 8 billion USD). See details in Table 1.2 in appendix.

5.2. Evaluation of the effectiveness of the stimulus package

National experts and international financial institutions highly appreciated the 1st stimulus package from Vietnam’s government, which helped Vietnam’s economy escape from the recession and become one of the few nations maintaining a positive growth rate. Together with the government’s policy of tax exemption and tax reduction the policy of interest rate subsidies of the Government have helped many businesses, farmers overcome difficulties and reduce borrowing costs, reduced sale price, thereby raising competition.

Results of the survey on “Vietnam company’s competitiveness in the post-crisis” conducted by VCCI, amongst 200 companies in urban areas, showed that most of small and medium-sized enterprises enjoyed benefits from the stimulus package, especially through the company income tax reduction and exemption policy.

With respect to the interest rate policy, 33.2% of surveyed companies had not received this subsidy. The reasons were that either these companies did not have a need for loans or they did not meet the requirements for borrowing. All companies having need for loans likely received this subsidy, although not all of them were satisfied with 100% of the loan demand.

However, in terms of the effectiveness, the majority of companies evaluated the subsidy at medium level. The measure of “personal income tax exemption” and “tax reduction and tax delaying for small and medium enterprises” were considered far more effective than other measures, with more than 32% rating this measure at a high level. See Table 1.3.

Regarding the overall effectiveness on the economy of the 1st stimulus package, about 30% rated it as high or very high and 43.2% of surveyed companies evaluated the package as having medium effectiveness.

Some limitations of the stimulus package execution were revealed. The 1st stimulus package seemed to focus on stimulating supply side instead of stimulating demand side. Unlike the results of a survey of 200

Table 1.3: The effectiveness of the government’s supporting policy in the 1st stimulus package

Unit: %

	Interest subsidy	Tax reduction and tax delaying for small and medium-sized enterprises	Tax reduction for particular goods and services	Personal tax exemption
Low and very low	12.6	13.7	10.5	11.6
Medium	27.4	41.6	55.3	41.1
High and very high	26.8	32.1	24.2	35.8
Not evaluated	33.2	12.6	10.0	11.5

enterprises in urban areas as mentioned above, the interest rate support for businesses in rural areas are not as expected due to many reasons, including the reform of administrative procedures. According to the survey results Survey on Provincial Competitiveness Index (PCI), only 3,225 among 9,890 enterprises have access to loans with preferential interest rate of 4%. According to preliminary observation, the limited ability of businesses in accessing to the loan interest rate support from the economic stimulus package has not made strong impact on businesses able to expand the business. Although this stimulus package has been allocated a relatively uniform, spread across the country and businesses in rural areas were likely easier to borrow. It is necessary to determine the focus of the stimulus program, especially in ports and roads, have improved infrastructure for the development of business enterprises, have contribution to the anti-decline of economy and create jobs.

6. Provincial Competitiveness Index-2009 (PCI)

2009 was the 5th year in succession that VCCI had cooperated with the project “Vietnam Competitiveness Initiative” in announcing the PCI to evaluate the provincial Governance capacity, aiming to create a favorable business environment for companies. The 2009 indices indicated a decrease in trust after quarter II, despite macro economic statistics suggesting that Vietnam had escaped from the worst period of the global financial crisis. The majority of companies maintained a pessimistic attitude, especially in the private sector. In particular, only 65% of Vietnam’s private companies planned to expand their business in the next two years, lower than 78% in 2008 and 77% in 2007. Only 47% of small and medium-sized enterprises unveiled a plan for business expansion.

According to the 2009 PCI report, Da Nang continued to take the lead in the PCI ranking, accompanied by Binh Duong (which had been the leader for three years). Four other provinces, namely Lao Cai, Dong Thap, Vinh Long and Vinh Phuc were amongst the group which showed excellent Governance. Cao Bang, Dak Nong and Bac Kan were at the bottom of the chart, demonstrating that these provinces should make greater efforts to attract investment and to develop the economy.

Noticeably, some provinces climbed to higher positions than in previous years: in particular Ca Mau, Dien Bien, Long An and Thua Thien-Hue made great advances. These provinces’ scores increased remarkably in various areas. For instance, Dien Bien made significant improvements in cutting down unofficial costs, enhancing the leader’s activeness and promoting labor training quality; Ca Mau executed measures to reduce the cost of entering the market and unofficial costs; Long An and Thua Thien-Hue showed improvements in transparency.

6.1. A number of localities cut down complicated procedures

A simplification of administrative procedures was the most significant point in the 2009 PCI results. This was an important criteria for attracting investment and growing private economy in provinces.

According to the same report, provinces and cities national wide have been putting effort into making companies easier to join the market. National wide application of “One-stop Shop” aimed at reducing the regulations for business registration. As a result, time for business registration reduced from 12.25 days to 10 days, and the number of companies that needed to wait for more than 1 month to start their business declined from 21% to 19%. The

number of companies that needed to wait for over 3 months dropped to under 5%. The stability of policies on land using also recorded certain improvements.

Concern about the possibility of land revocation was also reduced. More than 40% of companies (an increase in comparison to 2008 when it stood at 38%) believed on satisfactory compensation in case of land revocation. Of note, after many years of "standstill" the time taken to execute the government's regulations improved significantly. The average duration of a tax inspection declined from 8 to 5 hours. Approximately 47% of provincial companies agreed that work related to documents and provincial administrative procedures reduced remarkably and 40% of companies commented that officers and staff dealt with administrative procedures more effectively.

Successful improvements in the administrative procedures were due to the considerable efforts of local authorities, sectors and departments in implementing "Project on simplifying administrative procedures in state management" (Project No.30); establishing an administrative procedure database; checking and reducing 30% of complicated procedures hindering the activities of companies and citizens.

Thanks to the efforts of the provincial authorities of 63 provinces and cities, a number of provinces reduced administrative procedures by 40% through standardizing administrative procedure codes, for example, in Da Nang, Khanh Hoa, Binh Duong and Vinh Phuc. Moreover, the index of companies's trust in legal institutions also improved. The evidence was that the ratio of cases handled by lawsuits in provincial courts in which companies were claimers, increased from 65% to 72%.

6.2. Three areas needed to be improved

Result of the research showed that apart from efforts to "upgrade indices" of the improved sectors in previous years, it is a must for provinces to make a breakthrough in the three important areas to reach the goal of un-grade PCI.

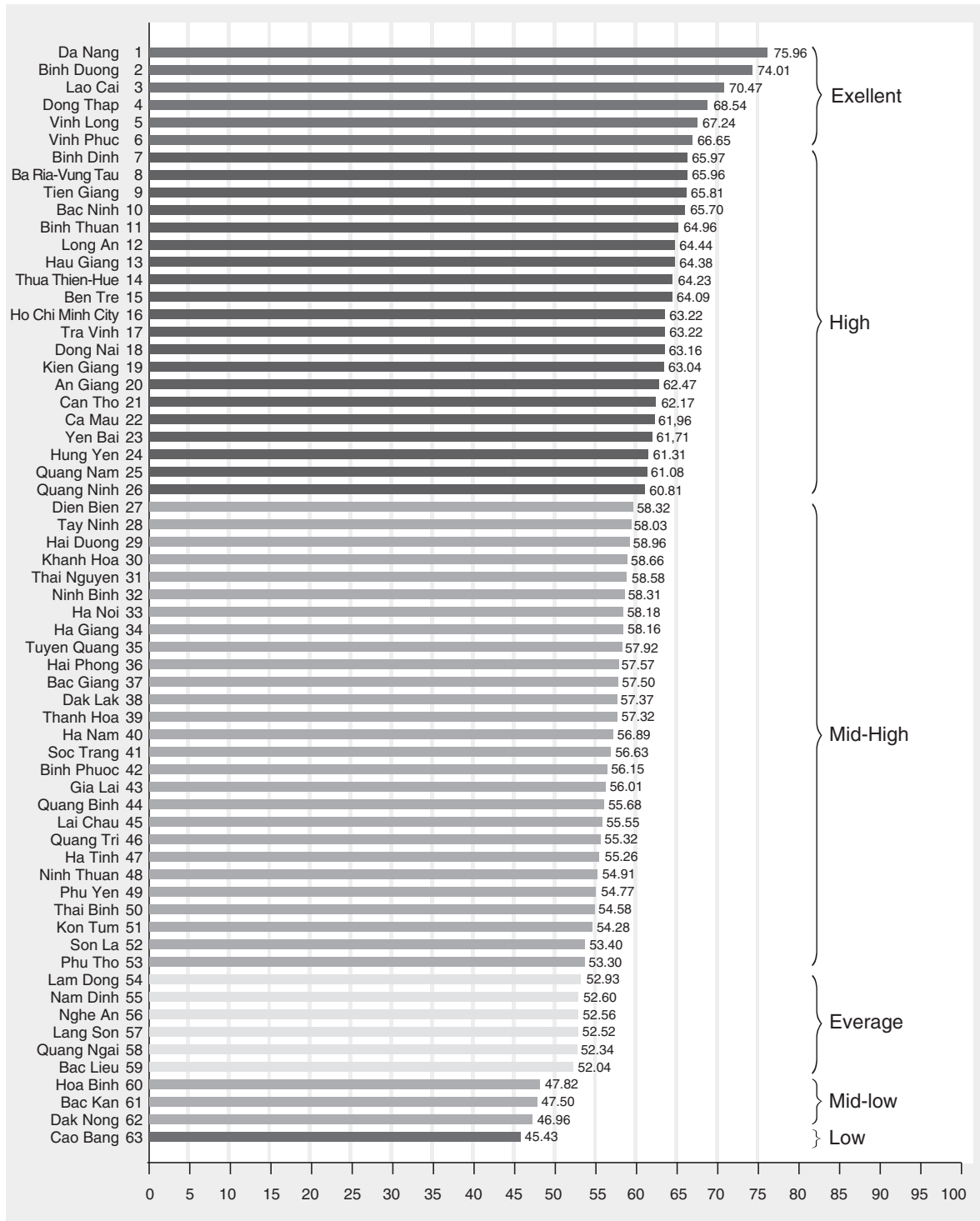
Transparency

In 2009, transparency's index achieved a score of just 5.9, lower than the previous year. The reason for this low score for transparency and information access was that 61.26% of surveyed companies criticized that documents related to business activities were available for only those who are having "good relations" with authorities. This was an backward-step. In order to improve this situation, the VCCI and the VNCI recommend that provinces should improve communication about documents and materials such as provincial budgets, socio-economic development plans, land use projects and infrastructure improvement plans, helping investors and companies make decisions with better forecast.

Reduce unofficial costs

The results also showed that a number of important indices related to "unofficial costs" showed a low score because up to 52% of companies think that provincial officials abuse the specific regulations for mercenary motives. This was higher than the level of 37% of this score in 2007 and 2008. Only 8.4% of companies believed that it was possible to anticipate the result of legal matters in the province. In addition, about 41% thought that it was necessary to negotiate with local tax officers about the tax level. Simultaneously, 53% companies said that they had to pay commission if they took part in an auction to get a contract with state agencies. This was a worrying sign about widespread corruption. Small companies, thus, encountered

Figure 1.3: Provincial competition index (PCI)



Source: VCCI-VNCI-2009.

difficulties at auctions for contracts from State agencies. In order to regulate this situation, it is essential for provinces to enhance transparency in governance as well as to strictly punish those officials making use of their position to harass companies. Accordingly, it is necessary to make efforts to create an environment to implement “clean” policy by rewarding organizations and individuals executing their duty fairly, in order to facilitate a support to companies.

Pro-activity of and advance of provincial leadership

Another low index in the PCI in 2009 was “proactivity of provincial leadership” which fell in comparison to 2008 and was down to the level of 2007. Only 43% companies believed in the positive attitude of provincial government towards private sector, reducing 10% on the last year. The number of companies rating provinces for creativeness in solving their problems was also lower than that in 2008 and resulted from the unclear regulation of central government.

This message, as well as the experiences of provinces and cities with a high index score, showed that in order to improve the PCI in coming years and to create a more attractive and economical investment environment, provincial authorities needed to make a breakthrough in reorganising and positioning officials who have a real competence, dynamic, creativeness, and responsibility.

7. Assessments of Vietnam by international organizations

7.1. The World Bank and International Financial Company: it is essential for Vietnam to improve their business environment

Annually, a number of surveys on the Vietnam business environment are

undertaken by international organizations. Each survey evaluates different business environment indices. The annual “Doing Business” report has been conducted by the World Bank (WB) and the International Financial Company (IFC) since 2004. Ten evaluation criteria set by WB are: companies established; number of construction licenses issued; labor employment and dismissals; assets registered; borrowing; investors protecting, tax payments; international trade; contracts executed and companies dissolving. The “Business environment in 2010” report, conducted in 2009, ranked 183 economies in terms of favorable business conditions. In general, Vietnam ranked 93rd in 2009, quite similar to that of the two previous years (92/182 in 2008 and 91/178 in 2007). “Borrowing capitals” and “Contracts Executed” indices were both notably improved.

In 2008, “Borrowing capitals” index ranked Vietnam at 43rd, in 2009 it increased 13 levels to be ranked 30th. The “Contracts executing” index increased by 10 levels in 2009 to be ranked 32nd (compared to 42nd in 2008). The WB recognized the two remarkably improved sectors of Vietnam namely tax and international trade. The application of company income tax policy reduced from 28% to 25% and additional income tax from land transferring activity was rejected. Besides, Vietnam put customs procedures into place and promoted boundary trade transactions. In their commitment to enter the WTO, export-import duration was reduced to 2 days.

On the contrary, “labor employment and dismissals” dropped 13 levels versus 2008 – the biggest decline across the ten indices.

It is recognized that Vietnam made certain efforts to improve the business environment, but other nations are also continuing to improve and are improving more significantly. Thus, in the coming

years, it is necessary for Vietnam to take actions to create a more favorable business environment.

7.2. World Economic Forum (WEF): Vietnam improved a number of business environment elements

A report on the Global Competitiveness of the WEF provided an overview on the elements affecting the business environment of individual economies as well as nations' abilities to create sustainable growth and development.

The 2009-2010 report on global competitiveness index (GCI) ranked Vietnam's general GCI 75th out of 133 nations, dropping 5 levels from that in 2008. The rank in 2008 was 70/134 and 68/133 in 2007. According to the WEF, in 2009 Vietnam made improvements on several

criteria, especially market scale (level 38th) and labor market effectiveness (level 38th), and in a number of detailed criteria ranked very high. However, Vietnam's 2009 GCI did not improve and dropped 5 levels from 2008, mainly due to a drop in macro economy stability which dropped from 70th to 112th considerably impacting the economy and competitive ability.

There were other obstacles such infrastructure (level 94th), financial market level (level 82nd), advanced education (level 92nd) and technology availability (level 73rd). In terms of infrastructure, Vietnam achieved improvements in telecommunications (level 37th) but suffered from weaknesses in infrastructure quality i.e. electricity, road and seaport (level below 100th). In terms of education, Vietnam continues to have shortcomings in almost all of the basic indices like educational quality

Table 1.4: Vietnam business environment indices in 2009⁸

Favorable degree of sectors	Vietnam's rank in 2009/183 nations and territories	Vietnam's rank in 2008/181 nations and territories	The best nations and territories	The worst nations and territories
Doing business	93	92	Singapore	Republic of Middle Africa
Starting a business	116	108	New Zealand	Guinea-Bissau
Dealing with construction permits	69	67	Hong Kong, China	Eritrea
Employing workers	103	90	Singapore, America, Australia	Bolivia
Registering property	40	37	Saudi Arabia	Timor Leste
Getting credit	30	43	Malaysia	Timor Leste
Protecting investors	172	170	New Zealand	Afghanistan
Paying taxes	147	140	Maldives	Venezuela
Trading across borders	74	67	Singapore	Afghanistan
Enforcing contracts	32	42	Belgium	Timor Leste
Closing a business	127	124	Japan	Timor Leste

8. Source: The World Bank, 2009.

(level 120th), number of students (level 106th) and educational cost (level 100th). Remarkably, the WEF rated Vietnam's innovation index relatively high, within which many indices were ranked strongly, namely innovation ability (level 41st) and governmental expense for technology science (level 21st).

Although Vietnam witnessed no improvement in the GCI in 2009, the WEF recognized Vietnam's progress in improving competitiveness since 2001 (the first time Vietnam was ranked by the WEF). In the medium and long run, Vietnam have enjoyed a number of strengths and growth potentials.

In terms of the innovation and creativeness indices alone, Vietnam was ranked relatively highly at 55th, an improvement of 2 levels over 2008 and 9 levels over that in 2007. There were 7 component indices within the innovation and creativeness index in which "bidding high-tech products of Vietnam's government" was ranked most highly (level 11th). Moreover, the index of "innovation ability" and "company's expenses for R&D" were ranked at relatively

high levels. Yet the index of Vietnam's "useful invention" was ranked 90th out of 133, indicating that the ability of inventions and creating useful solutions /products was not corresponding with the competency in R&D. In the coming years, it is necessary to improve this index in order to achieve widespread innovation.

7.3 United Nations Corporation of Trade and Development (UNCTAD): Vietnam continues to be ranked in the Top 15 nations attracting FDI

The "2009 report on international investment" of UNCTAD indicated that the global economic and financial crisis negatively influenced foreign direct investment projects of cross-nation companies in the short-term. However, the recovery will be slow down in 2010 and has dramatic improvements in 2011.

In terms of geographic areas enjoying potential FDI, the survey shows that 5 countries attracting most FDI are China, America, Africa, Brazil and Russia. Vietnam continued to rank 15th among nations

Table 1.5: Ranking chart of Vietnam's innovation and creativeness indices in 2009⁹

Innovation and creativeness ability	2009 ranking (among 133 nations/economies)	2008 ranking (among 134 nations/economies)
Innovation ability	33	41
Quality of science research centers	64	85
Company's expenditure for research and development (R&D)	27	42
Co-operation between institutions and universities in R&D	59	70
Bidding high- tech products of the government	11	21
The availability of engineers and scientists	62	51
Useful inventions	90	88

9. Source: Report on global competitiveness index 2009.

attracting FDI in 2009-2011. However, after 2 years ranked 6th, in 2009 Vietnam dropped to 11th. The report also shows that Vietnam continues to be one of the 6 nations attracting investors from Japan and Asian developing countries.

One of the indices against which Vietnam was highly ranked was market development, domestic market accessing, cheap labor and investment encouragement.

7.4. Other assessments

Trust ranking by Moody's

In 2007-2008, Vietnam was ranked with Ba3 for trust by Moody's with the prospect of "stability". At the end of 2008, due to the global economic crisis and recession, a number of nations were ranked lower for trust. However, Vietnam's trust coefficient in 2009 maintained at the Ba3 level.

Despite of the world economic difficulties, Vietnam's economy witnessed significant economic growth in 2009; GDP was at 5.32% and inflation stayed at 6.5%... This made a positive contribution to Moody's assessment of Vietnam's trust coefficient at three 3 level (the same as that in 2008).

Vietnam's trust level is 1 level higher than that of other nations in the region (Philippines' was three 3/BB; Indonesia's was three 3/BB-).

Human development index (HDI) according to assessment of the UN

The UN announced the 2009 Human Developing Index on 5th October 2009. In terms of HDI, Vietnam ranked 116th out of 182 nations. This index was calculated based on 2007 statistics reflecting living standards and health (measuring average life-span), education (measuring the rate of literacy in adults and general enrolment rate

Table 1.6: Nations attracting the most foreign direct investment in the next three years (compared with 2008-2010 survey)¹⁰

Economy	Index for 2009-2010 period	Economy	Index for 2008-2010 period
China	57	China	55
America	47	India	41
India	34	America	33
Brazil	25	Russia	28
Russia	21	Brazil	22
England	18	Vietnam	12
Germany	16	Germany	9
Australia	12	Indonesia	8
Indonesia	10	Australia	7
Canada	9	Canada	6
Vietnam	8	Mexico	6
Mexico	7	England	6
Holland	7	Holland	5
France	6	South Africa	5

10. Source: UNCTAD, 2009.

in education) and decent living standards (measuring income according to the parity purchase power PPP). Therefore, in 1985-2007, Vietnam's HDI increased by 1.16% each year (from 0.561 to 0.725) even though the economic growth was sometimes slow down.

Beside the HDI, two other indices against which Vietnam rates highly are average life-span (ranked the 54th in the world with the average life-span at 74.3 years) and rate of literacy in adults (69th - accounting for 90.3% people above 15 years old).

Assessments by international organizations show that Vietnam needs to make greater improvements in its business environment. In recent years, Vietnam has been implementing a number of policies to improve the business environment namely: policy of administrative procedure reform, supplementing and adjusting legal lobbies related to business environment, reforming tax system, etc. However, there remain many sectors which need to be reformed in order to enhance the national competitive ability, positively affecting the companies' production and business.

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PART II

ENHANCEMENT OF COMPETITIVENESS FOR COMPANIES AFTER THE GLOBAL ECONOMIC CRISIS

1. Impacts of global economic crisis

1.1. Introduction to the Survey¹¹

The year 2009 has been forecast as a very difficult year for Vietnam's economy due to the global economic slowdown, firstly in the area of export and investment, while macro-balances are also serious problems due to world economic crisis in 2008. Consequently, after a period of inflation and instability, the economy is weakened, businesses struggling with tough resistance from the above instability. Especially, they become harder facing unpredictable economic situation at the macro. So the research and evaluation competitiveness in the context of post-economic crisis of global enterprises will be subject to investigation showed a picture of the impact of the global economic crisis on the competitiveness of businesses.

As a matter of urgency, the survey was based on results a survey of 200 companies conducted over two periods. The first was conducted from December 2008 to January 2009 and the second was from December 2009 to January 2010. Both surveys were conducted amongst the same 200 companies and used the same questionnaire. This was a good time for

companies to evaluate their business results in an accurate and tangible manner. The important thing is that the survey gives some comparisons on companies' judgements at two different periods, which shows the impacts of the global economic crisis as well as changes in Vietnamese companies' strategic thinking learning from a year of "overcoming hardness".

Companies eligible for the 2009 survey were selected from 630 companies which participated in the 2008¹² survey with the respective percentage of ownership: the sample included 53.2% of responses from private sectors, followed by 20% of responses from the public sector, and 18.9% from the foreign direct investment sector. Companies of mixed ownership accounted for 5.8% of the sample, and the rest accounted for 2.1% surveyed. The sample did not only well reflect the proportion of companies in 2008 but also matched current ownership structure.

The data collection has some limitations as follows:

- The number of samples were relatively small compared with the previous survey. The survey was limited to companies within a radius of 100 km to Hanoi and Ho Chi Minh City. Companies

11. This part of research was conducted by Enterprise Development Foundation of VCCI in cooperation with Asian Competitiveness Institute of Lee Kuan Yew School of Public Policy under the National University of Singapore. The results have been analysed by researchers, but not reflects the official views of VCCI.

12. See Vietnam Business Annual Report 2008, National Political Publishing House, Hanoi, 2009.

in rural areas, therefore, did not have a chance to join this survey¹³.

- Not all the samples were answered by the same persons -director/ deputy directors of the company (because the survey was conducted at two different times). As a result, there are certain differences in judgement. However, statistics indicates that the variations are minor.
- Some sensitive questions regarding business results: number of labourers and profit rates were not fully answered in the three years under survey. Hence, the quantitative data on company performance will be used to compare the business performance of these companies only, not to make conclusion on all Vietnamese companies.

1.2. Challenges to Companies

It is shown that most companies eligible for the survey were under pressure from the impact of the global economic crisis, which had created major difficulties. The "**Increased costs of materials, fuel, logistics and liquidity**" factor remained the main challenge to Vietnam's companies. However challenges considered the most serious were the unpredictable fluctuations of the macroeconomic environment and the instability of the market.

The surveys in 2008 and 2009 showed companies in the survey tended to assess that their business performance was strongly affected by the "**instable macro-economy**" and "**Unpredictable fluctuations of the market**". Companies were less optimistic about their own business performance.

Assessing the instability of macro-economy, 67.4% of the surveyed companies said it caused "**a deep influence**" on their business.

Companies tended to believe that the macroeconomic environment was facing more unpredictable fluctuations in 2009, in comparison with the survey conducted in 2008. In 2008, only 52.6% of companies considered that macroeconomic changes affected their business (see Figure 2.1).

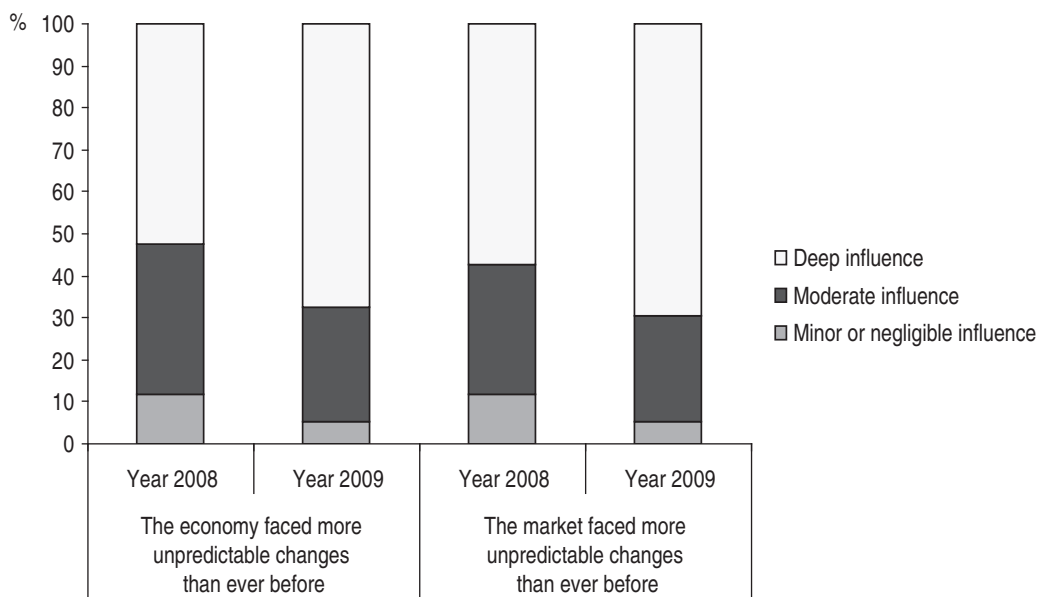
Figure 2.1 also shows that companies concern much on "**the instability of market**". Most of the surveyed companies (69.5%) considered the market was facing changes that caused major influence on their business. Only 5.3% of companies were optimistic that their businesses were not much affected by the market instability, compared to 12.8% in the 2008 survey.

In addition to the unstable market and macro-economy, companies faced more major challenges such as increased costs of inputs, slowdown demand of market and as a result, increased cost of capital. Cost of materials and fuels as well as logistics remained major pressures in 2009. Only 11.1% of companies were optimistic about the pressure of increased cost of materials and fuels while 63.7% considered their businesses were deeply influenced. Figure 2.2 also shows the pressure of the logistics cost did not reduce as 61.5% of companies considered it severely influenced their business, up from 59% in 2008 when crude oil prices increased and reached their peak of 147 USD/barrel. However, even though the Government intervened in domestic fuel prices in 2008, enabling fuel businesses to adjust fuel prices close to market price (and despite a reduction in the world's crude oil price) this did not reduce the pressure of fuel cost on companies in 2009¹⁴. This is an important message to companies that they should "adapt" to market mechanisms and have the initiative to save fuel to reduce these pressures, especially when the Government does not intervene deeply into the fuel market.

13. Thus the survey result focus on comparison with result of year 2008 but not used for extrapolation.

14. Decree No. 84/2009/ND-CP dated 15 October 2009 on petrol and oil business issued by the Government.

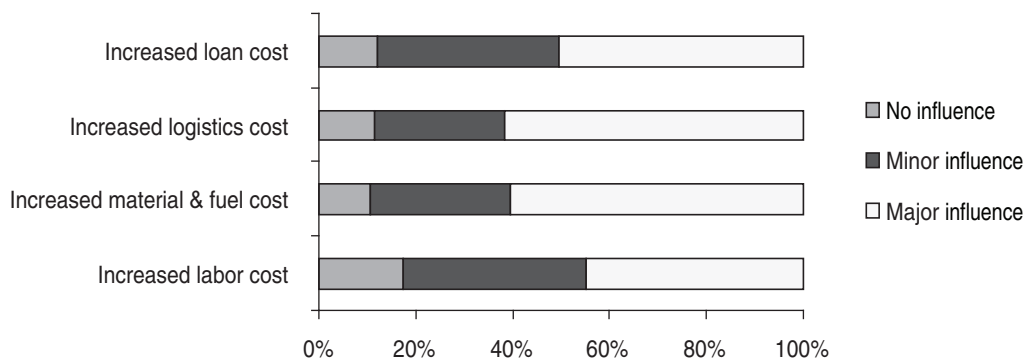
Figure 2.1: Assessment of companies on factors influencing their businesses



In 2009, thanks to the Government's timely involvement to deal with the unprecedented fluctuations in 2008, deposit and lending interest rates of the Vietnam Dong gained stability, following the stability of basic rates. However, some problems with deposit interest rates were revealed in mid-year due to the constraints of liquidity. Specifically, 12.1% of surveyed companies considered increased loan cost did not have any influence, or had negligible influence, on their business (in 2008 it was 17.4%), and 50.5% considered this had major influence

(the number was 52.6% in 2008). However, accessing bank credits were harder than before (see Figure 2.3). Despite credit cost reductions due to interest rate subsidized policy, credit procedures have not been changed much; credit documents were evaluated even more thoroughly to make sure the policy has been applied to the right target companies. The fact that several banks made an "offset" to decrease credit rates with different kinds of "additional fees" made credit procedures more complicated¹⁵. It was the reason why

Figure 2.2: Impacts of cost factor on Companies' business



15. <http://taichinh.saga.vn/kinhte/kinhdoanhthiente/15745.asset>

"Credit cost" in 2009 decreased but not significantly.

2009 was also the second consecutive year of difficulties with foreign currency revealed unsolved internal problems. The tense in purchasing foreign currencies could be considered the most significant point of Vietnam's economy in 2009. 49% of surveyed companies considered the difficulties they had in accessing foreign currencies had serious impacts, 36.3% considered it had moderate impacts and only 14.7% considered it had no impacts on their business (results in 2008 were respectively 21.1%, 46.8% and 32.1%). Due to the above financial difficulties, liquidity in 2009 was hardly improved. 63.7% of companies in 2009 considered they were facing serious problems relating to difficulties in collecting payments from their customers (52.1% in 2008).

2. Measures taken by companies to overcome the impacts of the crisis

Companies undertook positive activities to gradually step out of the current difficulties. Most companies considered that they

implemented their policies effectively, from adjusting business strategies - such as reordering business activities, saving costs and purchasing new equipment - to enhancing labor productivity, to changing investment strategies and human resources as well as relationship with customers, suppliers and other companies. Figure 2.4 shows that "*Consolidating relationships and exchanging information with suppliers*" and "*Providing reliable support to customers*" are two solutions that companies are most interested in. This is an indicator that Vietnam companies began to be aware about their position in the value chains.

The above measures gave encouraging results. Most companies said their chosen business solutions gave a moderate result in regards of product quality, market enlargement, labor productivity increase, cost reducing or profit increases. Notably, 26.8% of companies considered they gained significant profit increases and 56.8% considered they gained moderate profit increases due to above measures. Only 3.2% of companies confirmed they chose the right measures as they resulted in very high profit increases. As a result, it can be seen that despite the significant impacts of the global economic crisis on companies,

Figure 2.3: Impacts of financial factors on company business

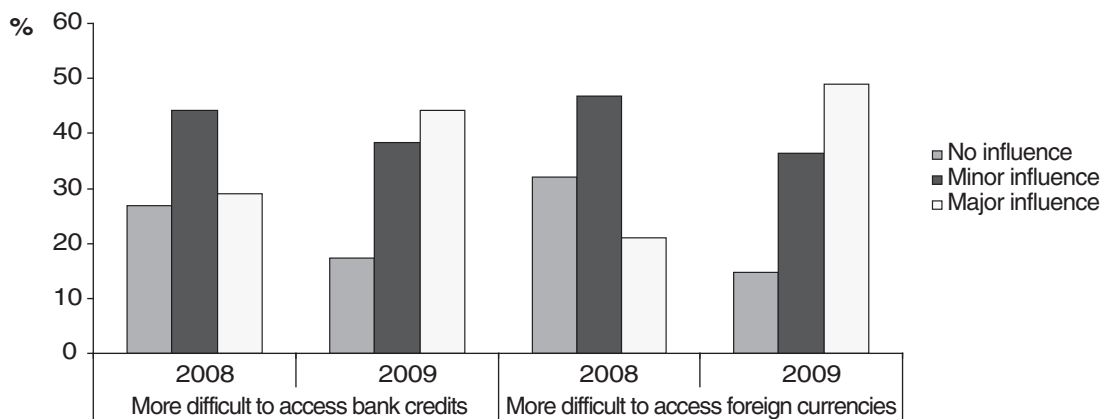
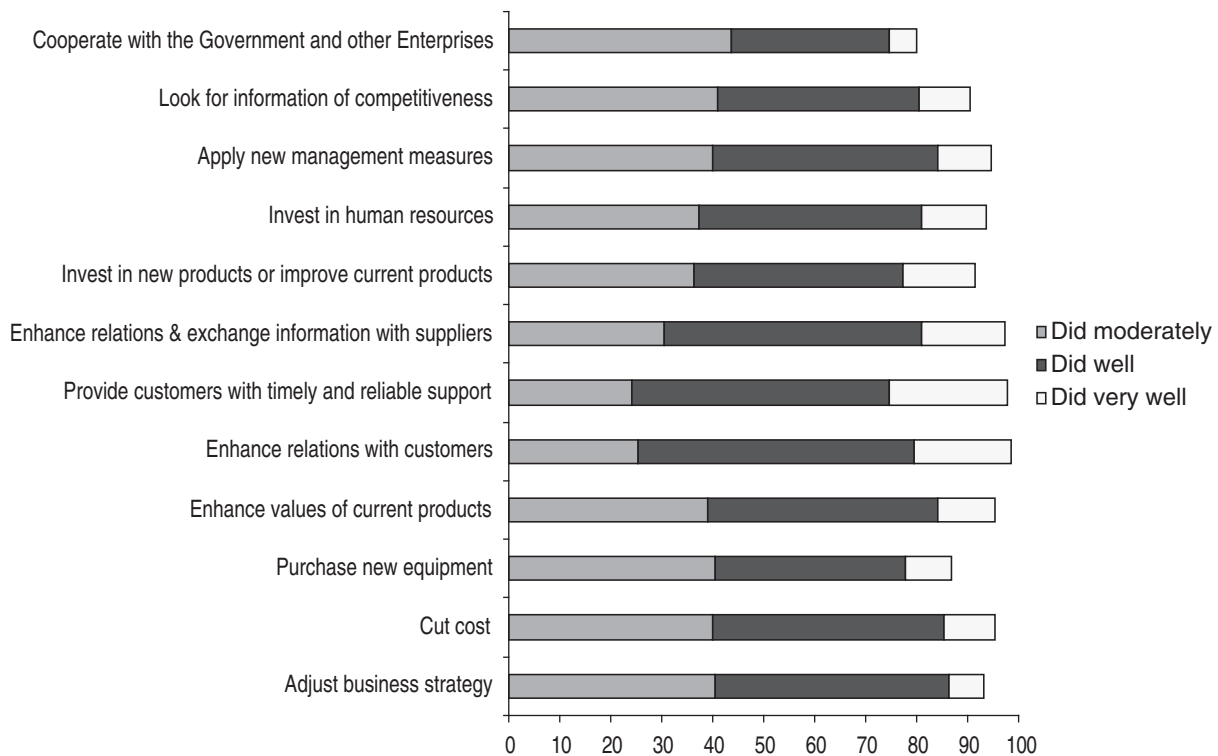


Figure 2.4: Company's activities against crisis



they tried very hard to gradually overcome current difficulties.

Table 2.1 again proves the efforts made by Vietnamese companies to overcome crisis. With plans made in 2008, they adopted all measures as mentioned above and as a result, despite the ratio of companies which had to narrow down their production being 2.1% higher than planned, the ratio of companies which maintained their production at current level was 10.5% higher. The number of companies which expanded their production size was 9.0% less than planned, but still at a high level, standing for 34.2% of surveyed companies.

Table 2.1 also reflects the obvious trend of continually expanding production size in 2010 and coming years despite companies not meeting their plans. This shows their determination in pursuing their strategic goals. Up to 11.6% of companies changed their business strategy to "*Enhancing core*

business of the company". Therefore, it can be confirmed that over 54.2% of companies have a strategy to change production structure. In other words, this is an important period for companies to "*restructure*". This requires great creativity in companies and is an important reason why innovation and creativity in companies are considered hot issues nowadays.

3. Accessing human and financial resources

3.1. Labor in companies

Vietnam's economy in 2009 showed indications of recovery. Regarding surveyed companies for which we have statistics on labor for three years - 2007, 2008 and 2009 - it can be seen that despite an increase of 3.3% from 2008 to 2009, the increase is less than the 6.7% increase from 2007 to 2008. 73.8% of companies increased or

Table 2.1: Statements on business solutions in 2009, reality and plans for 2010 and the coming period of companies

Unit: %

	Plans for year 2009 (stated by the end of year 2008)	Reality in 2009	Plans for 2010 and the coming period
Closing business	0	0.5	0
Narrowing down production	6.8	8.9	3.7
Maintaining production size	44.2	54.7	41.6
Expanding business size	43.2	34.2	42.6
Enhancing core business - solutions for 2010 and coming period ¹⁶	-	-	11.6
Other solutions	5.8	1.7	0.5
Total	100	100	100

maintained their regular labor size in 2008, the number was 78.1% in 2009. This indicates the Vietnam economy is on the way to recovery. However, contrary to this trend, the number of companies in the foreign direct investment sector which "maintained or increased their regular labors" decreased from 67.9% in 2008 to 60.7% in 2009.

With regards to evaluation of labor recruitment, the 2009 survey reflects the same result as that of 2008, when most companies agreed that recruitment of low-skilled workers is not difficult. Unfortunately the problem of recruitment of skilled labor had not been solved, with 47.4% of companies considering this as one of their companies' difficulties (the number in 2008 was 38.4%) - see Figure 2.5.

The economic crisis resulted in many companies' narrowing down their production and even closing their business and strikes decreased significantly in 2009.

According to the Vietnam Confederation of Labor, there were 215 strikes, a reduction of 70% compared with 2008. Most strikes were in the FDI companies (157 strikes and stands for 72.6%), textile and garment sector (114 strikes and 52.7%) and Southern key economic areas (155 strikes and 71.7%). Strikes were moderate and did not last long. The main reasons for the strikes were that many companies could not comply with their agreements with staff due to the impacts of the global crisis and there still were violations on labor law, especially salary debts, late payments and overtime which exceeded regulations¹⁷.

It is noticeable that whilst in 2008 there were 28.5% people having difficulty in expressing their opinions on strikes and 14.6% people being aware of "*possibilities of strikes*", the number in 2009 was 40.5% and 12.6% respectively. There were many reasons for the sharp reduction of strikes compared to 2008, of which the most

16. Survey in 2008 did not suggest this solution.

17. *Source:* Conference of implementation of Ministry of Labour – Invalids and Social Affairs, 2009.

important was that the economic crisis had an important influence on labor supply.

The state-owned sector was absolutely optimistic with no expectation of strikes, while 21.2% of FDI companies said there were possibilities of strikes. This indicates that violations on labor law did happen, especially salary debts, late payments and overtime exceeding regulations and more popular in FDI companies.

3.2. Accessing financial resources

61.6% of surveyed companies obtained loans in 2009. However, there were significant changes in comparison to the survey in 2008. There were no companies whose capital demand was not satisfied and all other levels of satisfaction increased. 67.5% of them was satisfied with more than 50% loan demand (where as this ration was 43.9% of companies in 2008). This shows capacity in capital access significantly improved. (see Figure 2.6).

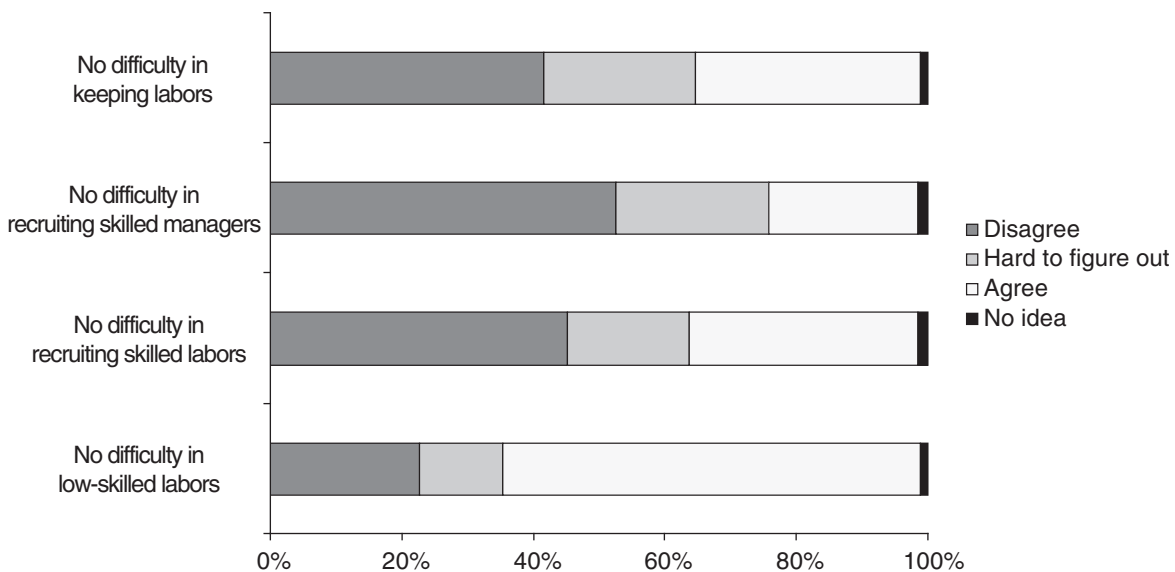
In the 2008 survey, and generally in previous surveys, a common problems was

lending rates being too high (42.5% of companies). In 2009, the pressure of interest rates reduced thanks to the stimulus package, however, it was not yet considered to be effective to companies; 39.5% of companies still considered this was one of the big obstacles to loan access.

"Lack of mortgaged properties" (opinion of 27.4% of companies) and *"business plan"* (opinions of 22.1% companies) are still two current obstacles to Vietnam's companies, especially to SMEs whose properties are limited, management skills are low and ability to make business plans has not been perfect.

The difference in this year's survey as many businesses complained about the "complicated loan procedures" (44.7%) (32.1% in 2008). It can be seen as the problem of too high interest rate, lack of collateral, or problems with the business plan have gradually been resolved, the State and commercial banks should have policies, business plan to form these types of products and services actually suit all types of enterprises, because the proportion of small and medium enterprises in Vietnam now

Figure 2.5: Companies' assessment on the ability to access human resources



accounts for 97%. So lending procedures need to be improved, including banks' support to companies in business planning.

Based on the above analysis, it can be said that Vietnam's capital markets can not fully meet the capital needs of companies. In fact in 2009, 77.9% of companies had demand for loans in the upcoming period, of which the domestic sector still has stronger demand for loans than the joint venture sector. Private sector had the highest proportion with 85.2%, followed by SOEs at 76.2% and finally 100% foreign-owned companies with 57.9%.

In a developing economy like Vietnam today, the main channel for capital mobilization is commercial banks. According to the survey results, up to 81.3% of surveyed companies agreed with this statement. Other channels such as stock markets, finance leasing, access to investment funds or traditional channels such as from clients, friends, ventures etc. were also promoted and expanded. There was a notable increase in use of the stock market to raise capital up from 2.2% in 2008 to 6% in 2009.

The amounts of capital mobilized by companies ranged from 1 to 10 billion VND.

The percentage of companies in need of short-term loans was 41.8%. Forty six point seven (46.7%) of companies required long-term loans. This rate tends to decrease when the loan size increased. The proportion of companies in 2009 which were in need of long-term capital of 10 to 50 billion VND was 34.7%, this is higher than the demand for short-term capital (29.6%). Compared with 2008 survey results it can be seen that Vietnam companies began to overcome difficulties generated by the economic crisis, gradually focused more on the investment process to expand their business activities.

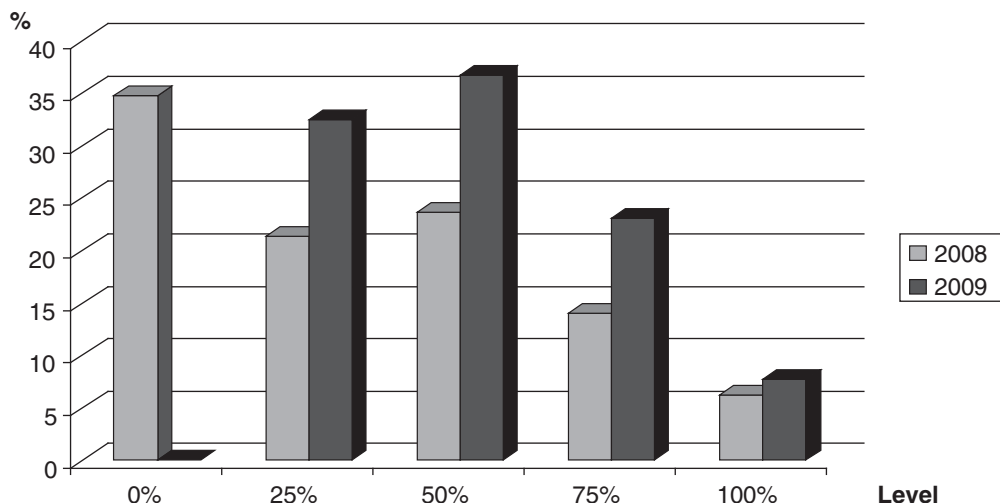
4. Situations for innovation by companies during the crisis

According to experts, world economies did not overcome the economic crisis during 2009. Indeed, signs of recovery only started in late 2009, mainly in some Asian countries, including Vietnam. In 2010, there are still difficulties that Vietnamese companies should prepare to cope with.

4.1. Innovation in companies

Three innovation fields were studied in this survey, namely: 1) Product innovation

Figure 2.6: Satisfaction level of loan demands



(goods or services); 2) Process innovation; and 3) Organizational reform.

4.1.1. Product Innovation

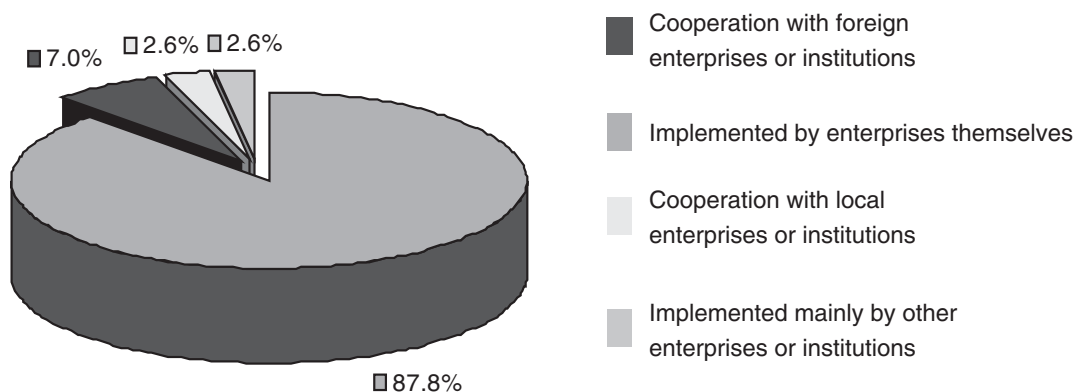
“Product innovation” is the introduction of new products or services into a market or a considerable innovation in existing products or services. The innovation (new or upgraded) must be new to the company, however, it is not necessarily new to an industry or a market.

During the survey in 2009, the percentage of companies which launched new or significantly upgraded goods was 60.53%, down compared with 2008 (67.8%). Evaluating the level of product innovation, the survey results in 2009 showed that there was almost no change in the proportion of companies which brought new services and products to the market - above 66.4%. However the proportion of companies which developed products and services which were new to their own business increased significantly (78.63%) compared with 2008 (57.9%). This shows that companies were attempting to innovate but were limited to improvements within their own portfolio, rather than launching products or services which were new to the industry or market. Indeed, evaluating the proportion of innovation on total goods turnover in 2009, the rate of products/services "new to market"

was only 16.1%, the rate of product / service "new to companies" was 19.1% and the rate of unchanged goods and services was 64.8%. In 2008 the corresponding ratio was 25.3%, 20.9% and 53.8%. This again shows that innovation efforts of companies during the latest period did not deliver the expected results. This is not just a result of companies being risk averse due to the economic crisis, but also a matter of limitations in innovation capacity, or the need for more active support from the Government in product innovation. Typically, in the early stages of innovation, not all companies will increase revenue for these products. Customers need time to become familiar with the new products and brand.

However, it is worth noting that most product and service innovative was conducted by the company itself (see Figure 2.7). In addition, the percentage of companies which had relationships with other companies or domestic or overseas research institutions was still very limited. The mechanism of cooperation between companies with domestic and overseas research institutes really did not improve from 2008 to 2009. This is a serious obstacle to the development and enhancement of competitiveness of companies in Vietnam in the process of international integration. With the "do-it-

Figure 2.7: Organisations made product innovation



yourself" approach in product and service innovation, companies can hardly succeed in making high turnover from new products as mentioned above.

4.1.2. Process innovation

"*Process innovation*" is to carry out a new production procedure or have considerable innovation in production, distribution or after-sales services. The creativity (or innovation) must be original to companies, but not be necessarily new to the industry or the markets.

The main difference in results seen in 2009 compared with 2008 is the proportion of companies which carried out "*new methods or significant improvements to production, manufacture or supply of goods and services*" – this measure jumped to the first position, from 40.3% in 2008 to 57.4% in 2009. "*Activities in support of new or significantly improved process*" reduced to 44.7% from 55.7% in 2008 and finally, only 42.6% of companies carried out "*new or significantly improved logistics services, distribution for raw material inputs or outputs*". It is noteworthy that in the 2009 survey up to 27.4% of companies had simultaneously achieved in all three of these areas.

Most popular innovation activities can be seen across all three areas, with the highest proportion (83.5%) being "production or

manufacturing", followed by "Other support activities" (77.6%) and finally "Logistics and distribution" (72.8%). Companies tended to work with overseas companies or research institutions for innovation in the area of "Production and manufacturing", while they tend to work with domestic companies or research institution in the field of "Logistics and distribution" and "Support activities". In the long-term, the Government should have policies to encourage and attract investment for research and enhance cooperation with foreign companies, research institutes. In addition, they should have preferential policies and expand domestic companies and research institutes to help improve innovation processes in the field of "Production or manufacturing" as well as is the areas of "Logistics and distribution" and "Other supporting activities", as the service industry is booming now.

4.1.3. Organizational reform

Organizational restructure means to make considerable changes in the structure of a company or its managerial methods in order to upgrade the deployment of knowledge, develop quality of goods and services, or improve a company's efficiency.

According to the 2009 survey results, up to 77.4% of companies concentrated on their internal business, such as changes in organizational structure or a combination of

Table 2.2: Ratio of companies implemented "process innovation"

	Yes (%)	No (%)
New method or considerable innovation in production or invention of products or services	57.4	42.6
Innovation in logistics, delivery or distribution or considerable innovation in input, products or services	42.6	57.4
New supporting services or considerable innovations in process such as maintenance system, purchase, accounting or estimation	44.7	55.3

Table 2.3: Organisations carried out innovation process at the companies

Unit: %

	Innovation in		
	production or manufacture	delivery and distribution	support activities
Mainly by the companies themselves	83.5	72.8	77.6
Cooperation with foreign companies or institutes	10.1	8.6	4.7
Cooperation with domestic companies or institutes	3.7	12.3	14.1
Cooperations with other companies or institutes	2.7	6.3	3.6

different activities across departments. However, compared with results of the survey in 2008, 78.1% of companies focused on changes to new management system or improvement of knowledge and skills for their staff. This is the inevitable result of the impact of global economic recession on Vietnam's economy, forcing companies to take immediate action to maximize resources and reduce production costs, for example: labor reduction, organizational restructure and merging departments. 62.6% of companies focused on new or significantly improved knowledge management systems for better use or information, knowledge and skill exchange in business. 50.5% of companies made significant changes in their relationships with other companies or state institutions, such as through alliances, collaboration, outsourcing, or subcontractors. In the context of integration and to gradually adapt to market changes, Vietnamese companies (especially Small and Medium-sized Enterprises) should have taken more positive actions to expand links between companies and with other organizations.

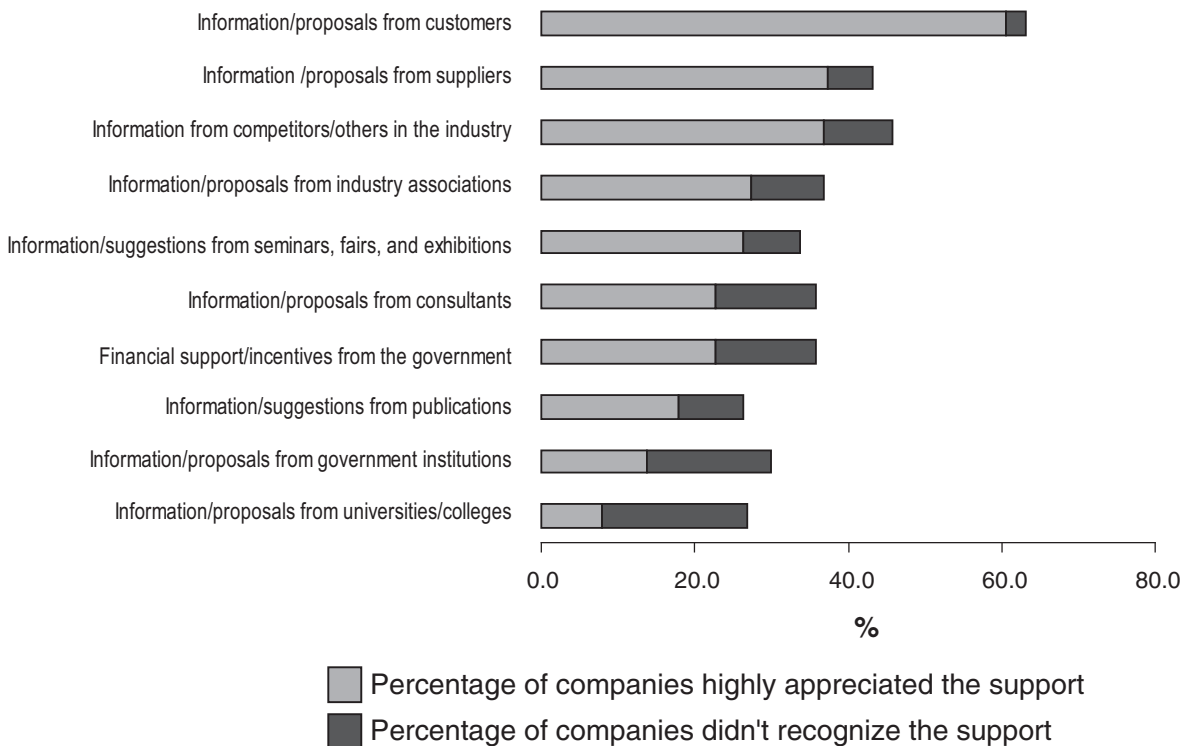
As a results of innovation in business organization in 2009: up to 62.6% of companies increased the quality of their

goods and services and 53.2% of companies reduced customers' waiting time thanks to improved business operations. However, there was not significant improvement neither in the area of organizational restructure to improve staff satisfaction nor in reduction of the cost per output.

4.2. The impact of innovation activities at companies

Up to 60.5% of companies felt that information/suggestions from customers were very important to their business innovation. Next in importance were information/proposals from suppliers and from competitors and other people in the same industry. Of less importance were information/proposals from other state institutions, or from universities and colleges. The role of the Government and these organizations (including the information/suggestions from industry associations and consultants) has not been appreciated. Up to 37.9% companies still had to undervalue businesses and low information/proposals from research institutions under the Government. For information/proposals from universities, colleges, this percentage is 38.4%. (see Figure 2.8).

Figure 2.8: The importance of innovation in companies



Results of the survey in 2009 showed no major change in the role of Government and national organizations, trade associations, universities and colleges in helping businesses find new direction or reduce investment costs for research and development activities. In order to enhance competitiveness and promote innovation in companies, support from the State is essential. The State should guide the agencies, research institutions, universities and colleges which are helping businesses with the renewal of organizational processes and conducting R&D of different types of products and services.

Innovation in products/services and processes has helped a lot in: 1) Improving the quality of goods and services (64.2% of businesses rated this as very high); 2) Improving ability to provide products and services (58.4%); and 3) Improving flexibility in providing products and services

(57.9%). These results had not changed much in comparison to the survey in 2008. The fact is that innovation activities do not really help to reduce labor and raw material costs and energy per output. Approximately 10% of business respondents stated that the innovation activities to increase types of goods and services, or to make new market entry or increased market share, stay at low or very low level. This is a hard-to-solve problem and a major obstacle for competitiveness of companies in Vietnam when integration into the world economy is a top priority.

4.3. Obstacles to innovation activities at companies

Three key obstacles to innovation activities were identified in the survey:

First, the cost: up to 46.8% of companies said that the biggest obstacle to innovation

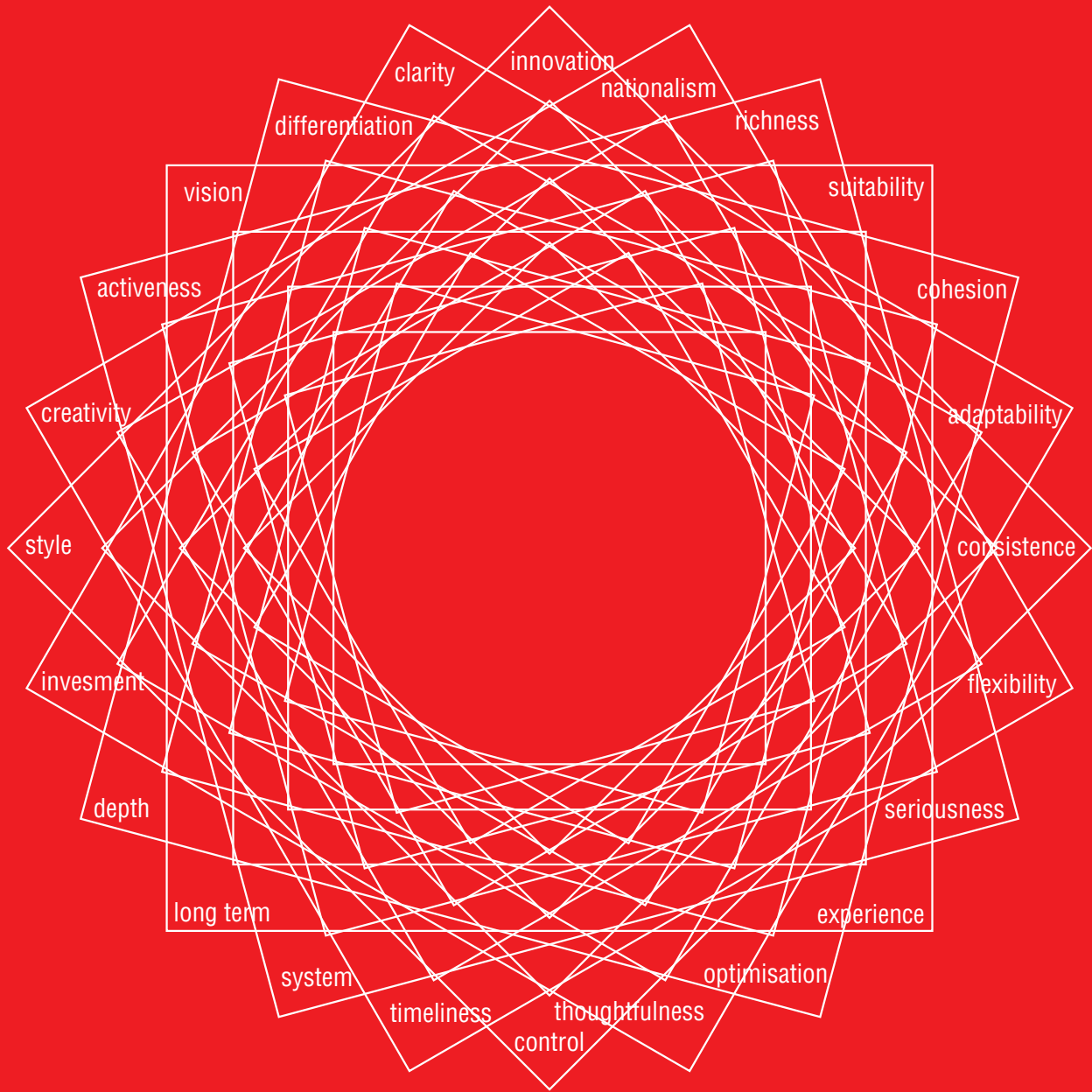
activities was the high cost, followed by the lack of financing both from outside resources and the company itself.

Second, the knowledge: 42.1% of companies said that they had insufficient human resources for innovation activities. Other barriers were: searching for innovation partners and market information and technology information.

Third, the market: 47.4% of businesses said that the market dominated by big

companies was the obstacle to innovation activities of companies. According to the annual survey of GSO the number of large enterprises in total enterprises of the whole economy is only about 2.9%, the number of SMEs accounts approximately 97.1%. So, for large businesses who already has been positioned in the market place, combined with financial resources and people, they are easier in innovation activities in both products and services or finding a new market. This barrier is a real difficulty for late coming businesses.

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PART III

ASSESSMENT OF FIRM'S INNOVATION CAPACITY

1. Analysis by sector

In order to assess the firm's innovation capacity, Part III of Vietnam Business Annual Report will analyze five basis sectors of the economy as follows¹⁸:

1. Food processing (production of food, beverages and cigarette)¹⁹;
2. Garments (including textile);
3. Manufacturing of motorcycles and motorbikes;
4. Electronics;
5. Banking sector (including investment funds and security service company).

The selection of these five sectors was based on these reasons:

- Food processing, garments, manufacture of motorcycles and motorbikes and electronics are key sectors of Vietnam's economy and play an important role in export. Also, the success of these industries is highly dependent upon technology level, so innovation capacity will be the key to success for companies within these sectors.
- The banking sector had the fastest development in Vietnam recently. This industry also had the highest

requirement for modern technology in order to meet demand from the market. Thus, innovation technology, investing in modern machinery and bringing new products to the market are vital for companies within this sector.

- The selected sectors are aligned with the selected sectors in the Vietnam Business Annual Reports from previous years. Analyzing firm's innovation in 2009 will supplement the picture from previous surveys, showing the continued development of companies in these sectors.

In addition, this report also analyzed the innovation capacity of FDI companies, which could leverage technology transfer from developed economies to Vietnam. This analysis aimed to give an overview of the real and technology innovation capacity of FDI firms but is not intended to make comparison with companies of the above five sectors.

The following section will provide an analysis of innovation capacity for firms within the above five sectors. This analysis uses data from the "Enterprises census database 2007 and 2008" which is conducted by GSO.

18. These economic sectors are secondary ones which are consolidated from the sub-sectors of VSIC 2007.

19. For convenient presentation, from part II, the industry of food processing, beverages and cigarettes is referred to as food processing. The industry of banking services, investment funds and security service companies is referred to as banking services. The names of other industries remain unchanged.

2. Number of companies (as of 31st december)

Many business opportunities were created for firms in 2008. Table 2.1 (see the Appendix) indicates the number of companies increased within all five key economic sectors.

Among the five industries analyzed, the food industry, textile and banking sectors are attracting investments and business enterprises the most. However looking at the pace of entry into sector (percentage of enterprises increased from the previous year), the electronics and textile sectors has the most highest growth rate of enterprises (37% and 30%). The remaining sectors have joined the industry in speed of about 11-14%.

The 2008 marked as an unsuccessful business year compared to 2007. The

proportion of enterprises having loss increased in all five analyzed industries. This rate is highest in the electronics and textiles (60% and 55%), while this sector is attracting more businesses. Production cars, motorbikes and food processing are the sectors where the ration number of enterprise having loss rank in the 2nd-place (36% and 30% of companies). Banks traditionally have always been industry where the ratio of businesses having loss is at the lowest losses level (9%). The economic crisis in the second half of 2008 along with high inflation rate, especially in the third quarter of 2008 was the main reason for losing situation of enterprises in Vietnam during this time.

3. Innovation capacity analyzes

In research into innovation, firms' innovation capacity is often measured by human and financial resource indicators such as

Figure 3.1: Business structure

Unit: firm

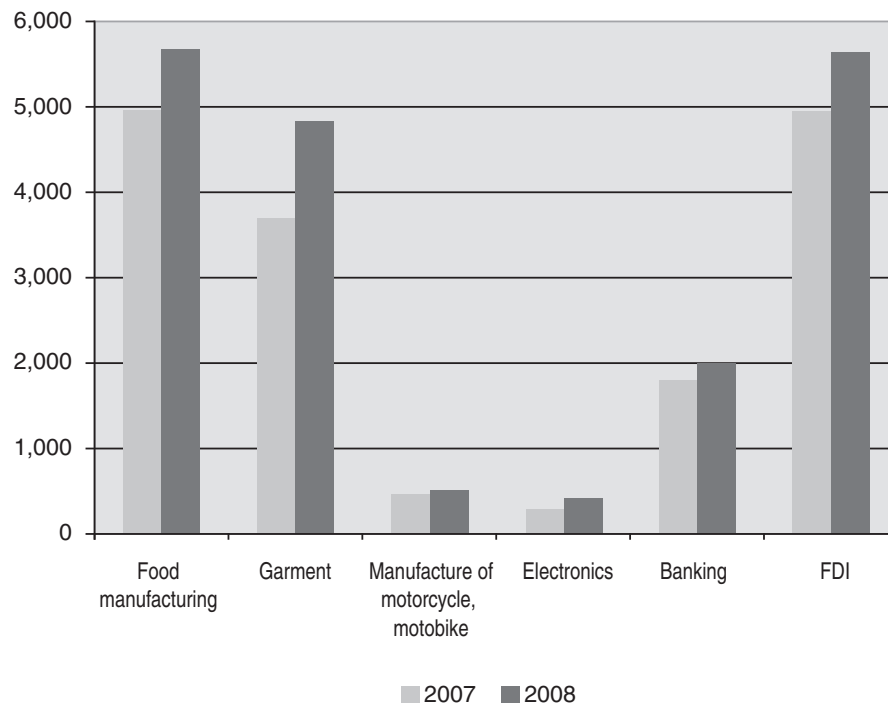
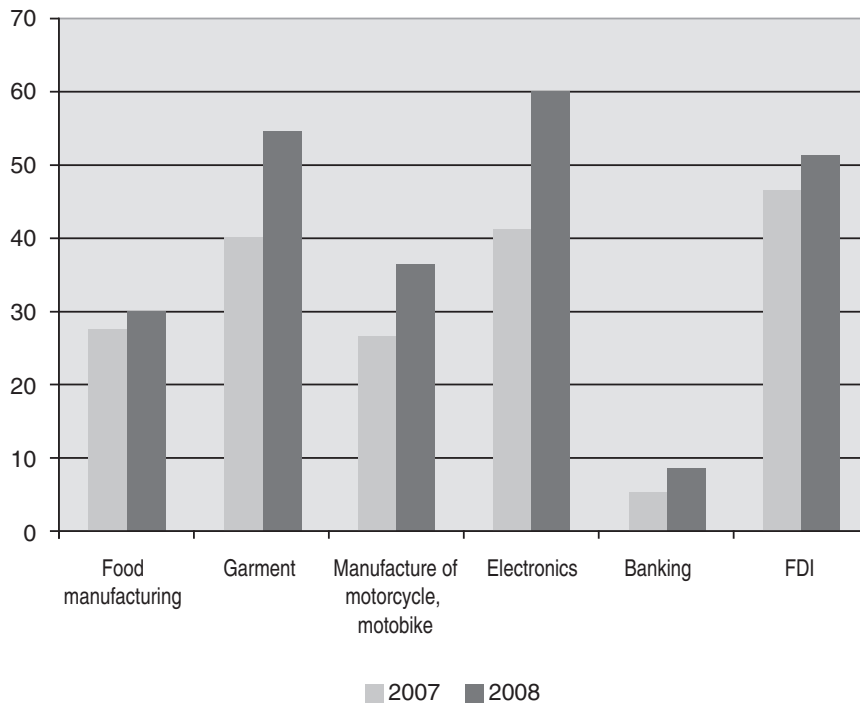


Figure 3.2: Ratio of number of firms having loss by industries

Unit: %



productivity, technology capacity, capital productivity, investment in fixed assets and the number of scientific staff within firms.

3.1. Assessment of firm’s investment in technological change regarding to labor and capital indicators

3.1.1. Trends in productivity (= Total revenue/Total labor)

Productivity is one of indicators of the technological capacity of firms (Figure 3.3). In general, sectors with the highest productivity include food manufacturing, manufacture of motorcycles and motorbikes and banking (from VND 500 to 600 million revenue per employee). The electronic sector stands in the average group with approximately VND 400 million revenue per an employee. The garment industry is still attracting many employees but it also has the worst labor quality, with productivity half

that of the electronic sector and 1/3 that of the lead sectors group.

The banking sector has the highest growth rate of labor quality improvement (upward trends in productivity): up 20% on 2008. Sectors with the second highest growth rate in productivity are food manufacturing (8%) and manufacture of motorcycles and motorbikes (5%). Productivity within the garment industry doesn’t really change from 2008, while electronics has strongly decreased in productivity – up to 11%.

3.1.2. Fixed assets to total assets

This ratio is an important indicator of the technological capacity of firms. If firms invest more in machine purchasing, factory building and innovation in technology, the ratio of fixed assets to total assets will increase further. Figure 3.4 demonstrates the level of this ratio and trends in

Figure 3.3: Productivity

Unit: million VND

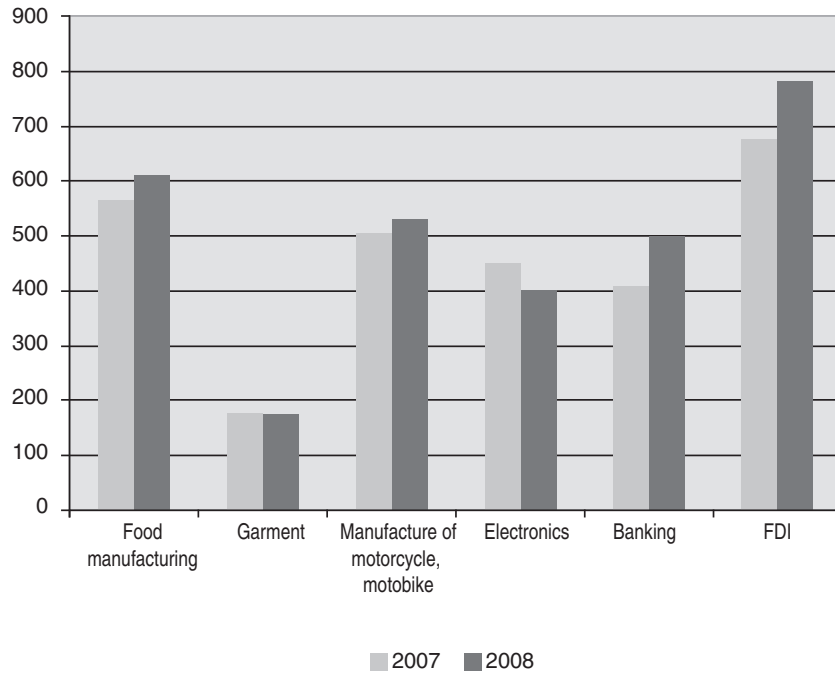
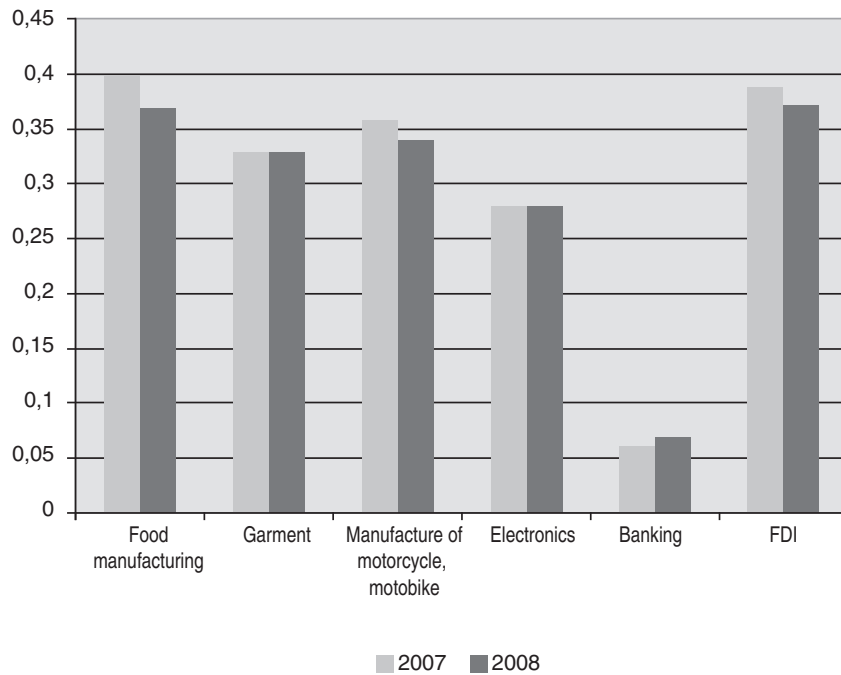


Figure 3.4: Fixed assets to total assets ratio

Unit: times



technology innovation of all sectors. This rate fluctuates around 30% within all sectors; that means capital value (includes factories, machines and technologies) accounted for 30% of total assets. Banking is a service industry and so doesn't rely as heavily on fixed assets, so the ratio is not very high (accounted for only 6-7%).

However, only the banking sector improved its fixed assets to total assets ratio in 2008 with a growth rate of 17%. Besides enlarging the size of production, technology innovation is one of main reasons for improvements in this indicator. No other sectors improved on this ratio in 2008. While food manufacturing and manufacture of motorcycles and motorbikes saw a decrease of approximately 8% and 6% respectively. This issue shows that economic crisis beginning in the last quarter 2008 impacted strongly on investment in fixed assets and the growth rate of technological innovation within these sectors.

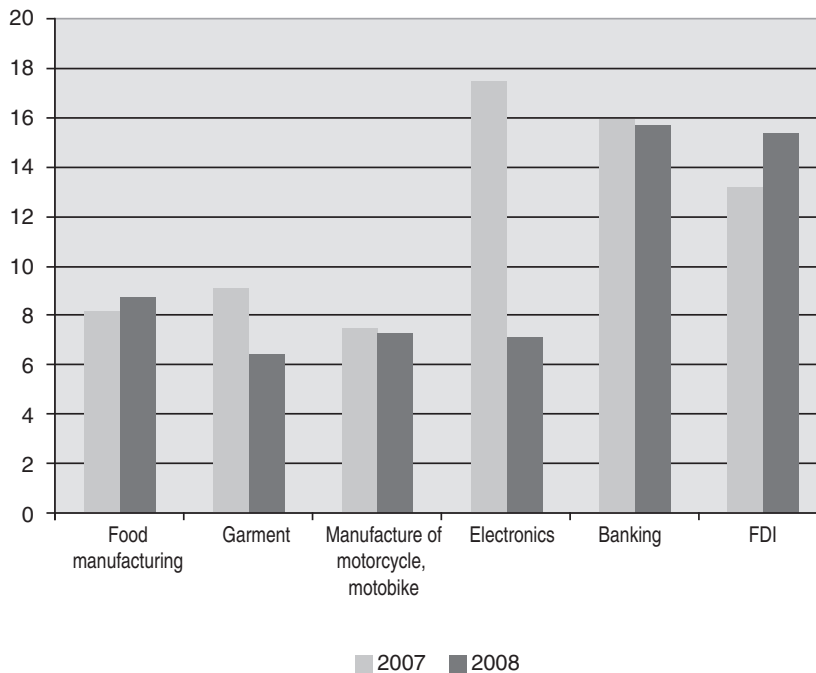
3.1.3. Capital productivity (Total revenue to Fixed assets)

This indicator is used to evaluate the ratio of revenue to fixed assets. The higher the capital productivity, the higher the level of technology. Figure 3.5 demonstrates this ratio in 2007 and 2008. The banking sector had the highest capital productivity (15.64) i.e. one VND of fixed assets unit created more than VND 15 revenue units. There are two reasons for the high ratio in the banking sector. Firstly the banking sector has a low value of fixed assets and secondly, this sector achieved the highest income. The ratio for other sectors varied between 6.5 and 9 times of which the garments sector has the lowest ratio.

The change in capital productivity indicates the efficiency of fixed capital utilization (machine and factory) and to some extent the firms' technological innovation capacity. Though the ratio of investment in fixed

Figure 3.5: Capital productivity (Total revenue to Fixed assets)

Unit: times



assets in food manufacturing decreased in 2008, the efficiency of assets utilization of companies in this sector had the highest level of improvement (increases 6% than 2007). The efficiency of fixed asset utilization didn't change in 2008 for the banking and manufacture of motorbikes sectors. Both of other sectors (garments and electronics) showed a strong decrease. In 2007 the rate in the garments sector was 30% and 60% in electronics. Perhaps the decrease in the export market (garment) and increase in input material price (electronics) in 2008 caused the decline in the size of the firms in these two sectors leading to a decreased efficiency of fixed assets utilization across the sector.

3.1.4. Average fixed assets equipment (Fixed assets to total labor)

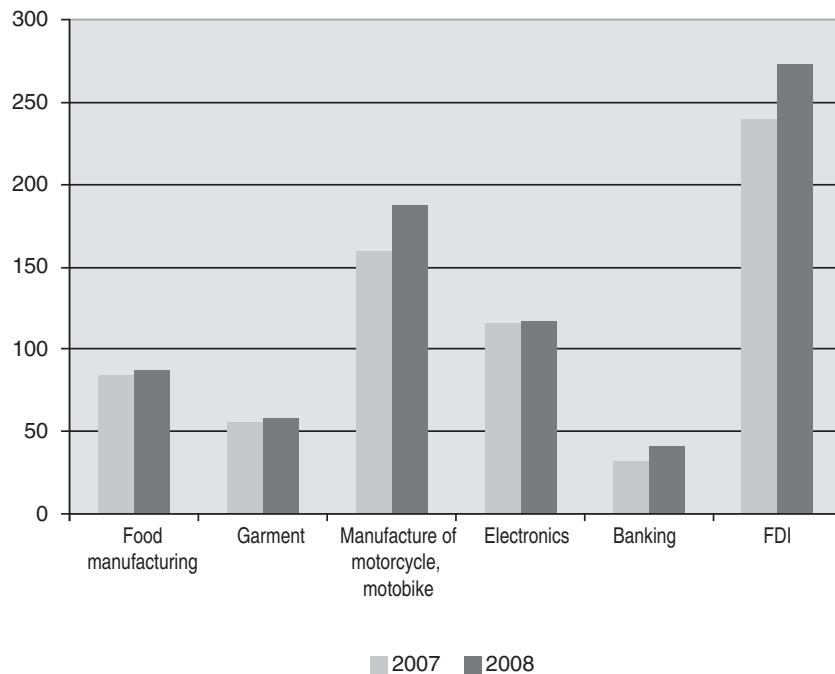
Average fixed assets equipment is evaluated by the ratio of fixed assets to total labor. It is an important indicator of the

technological capacity of each sector. The highest level of investment in technology, machines and factories was always found in firms within the manufacture of motorcycles and motorbikes sector, at approximately VND 190 mil. per employee. These ratios are average in the food manufacturing and electronics sectors (VND 88 mil. and VND 188 mil. per employee). The lowest level of average fixed assets equipment was found in firms in the garment sector (VND 58 mil. per employee). The garment sector also had the lowest level of technology. Because it is a service sector, the level of technology in the banking sector isn't completely evaluated by fixed assets value.

Figure 3.6 indicates the change in fixed assets per employee and it also demonstrates the speed of technology innovation within all sectors. The change was at the highest level in the banking and motorbike manufacturing sectors. This ratio

Figure 3.6: Average fixed assets equipment (fixed asset to total labor)

Unit: VND million



increased in other sectors but not remarkably.

3.1.5. Investment in fixed assets to total investment capital

Figure 3.7 indicates the ratio of investment in fixed assets to total investment capital in 2008. As analyzed above, the highest investment level was found in sectors producing electronics and in motorbike and motorcycle manufacture. The lowest level was recorded in banking due to specifics of this sector dealing with money.

3.2. Assessment of human resources for technological innovation

Ratio of scientific staff to total labor

This ratio is used to evaluate human resources for technological change. In 2008, this ratio was less than 10% within all sectors except the banking and garment

sectors. In 2008 the rate of scientific staff decreased within all industries, except garments comparing to 2007. (Figure 3.8). This shows that although firms hired more employees and expanded their business they didn't develop human resources for technological change and R&D. Two reasons are: (i) demand for technological change wasn't high in 2008, (ii) research on the labor market showed that supply of labor does not always meet demand, especially for skilled labor. This factor makes it difficult for firms to meet their demand for scientific staffs.

3.3. Assessment of financial resource for technological change

(R&D + technological change) expenditure to total investment capital

Technological change is implemented from two resources: new technology transfer from outside or internal R&D. Firms can't

Figure 3.7: Investment in fixed assets to total investment capital

Unit: %

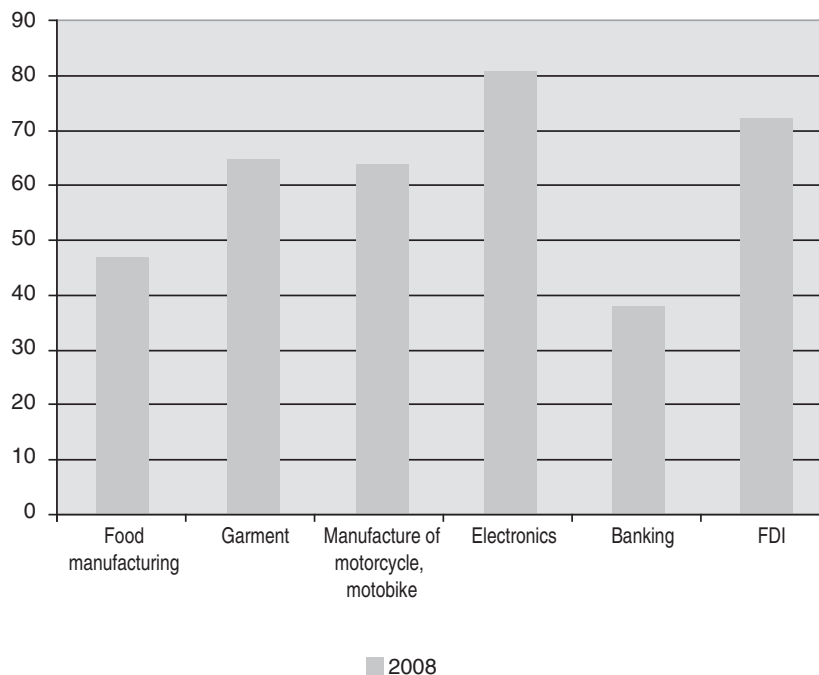
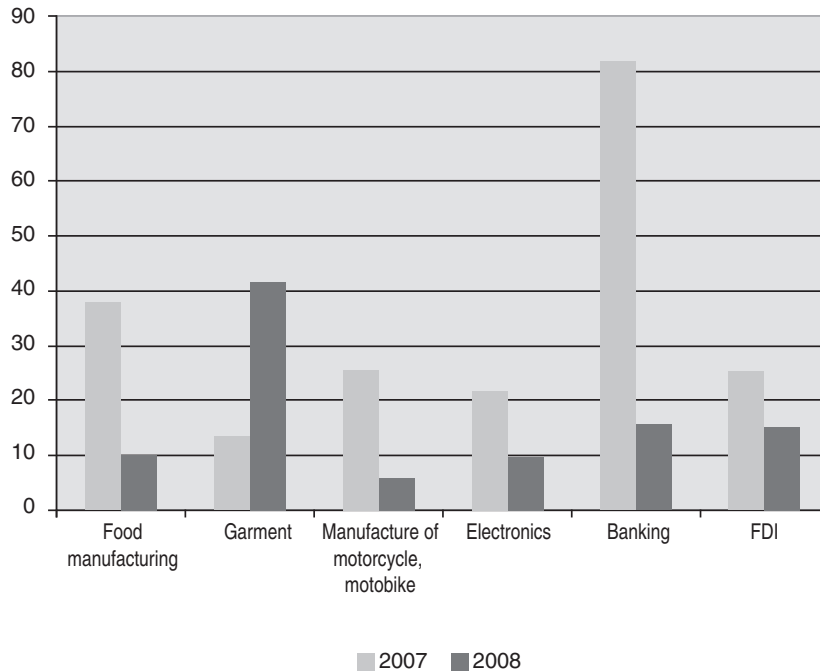


Figure 3.8: Ratio of scientific staff to total labor

Unit: %



master their technology if they don't have R&D. R&D is one of priorities if firms are aiming at to improve their competitiveness. Figure 3.9 indicates the ratio of expenditure for R&D and technological change to total investment capital. Food manufacturing and the garment sectors spend from 14% to 20% on R&D and technological change. Expenditure for technological change was 30% and 50% of total investment capital in the motorbike/motorcycle manufacturing and electronics sectors. Fairly low spending was found in banking, at only 9% due to the nature of the service sector that limits funding for fixed assets (machines and factories). In addition, Vietnam's banking sector has just experienced a period of technology renovation to catch up with the development in the region so that innovation demand wasn't high in 2008.

4. Assessment of firms' innovation capacity

Firms' innovation activities are demonstrated through R&D, number of scientific research programs, number of innovative technical methods and IT application. This part of report will assess firms' innovation activities based on above mentioned indicators.

4.1. Number of firms engaged in R&D activities

Figure 3.10 (Table 2.11) shows the number of firms engaged in R&D activities within selected sectors. The number of firms implementing R&D declined strongly in 2008 in comparison to 2007. The ratio of firms engaging R&D was low: less than 0.5% in 2008 in all sectors except electronics, where as this ratio was between % and 3% in 2007.

Figure 3.9: Ratio of R&D and technological innovation's expenditure to total investment capital

Unit: %

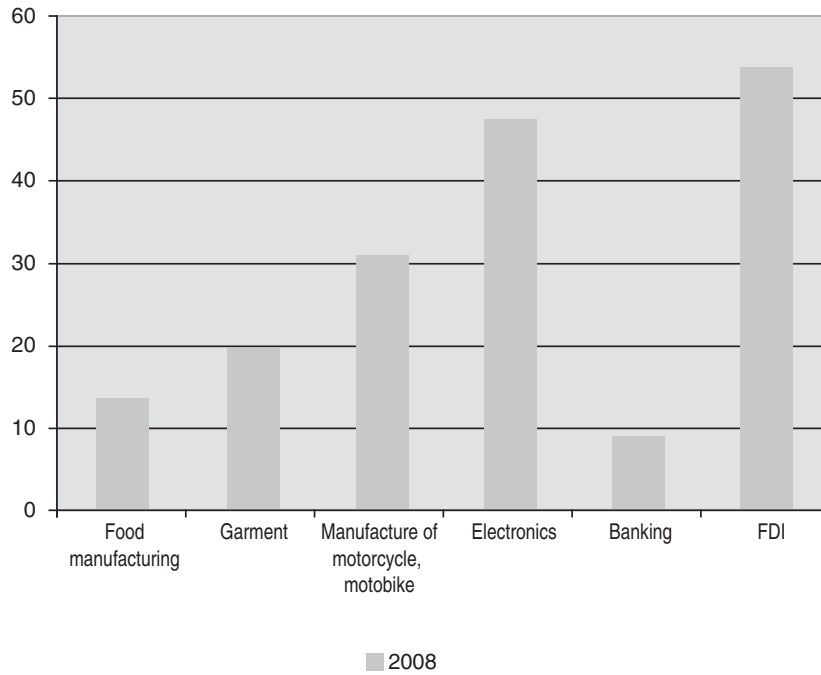
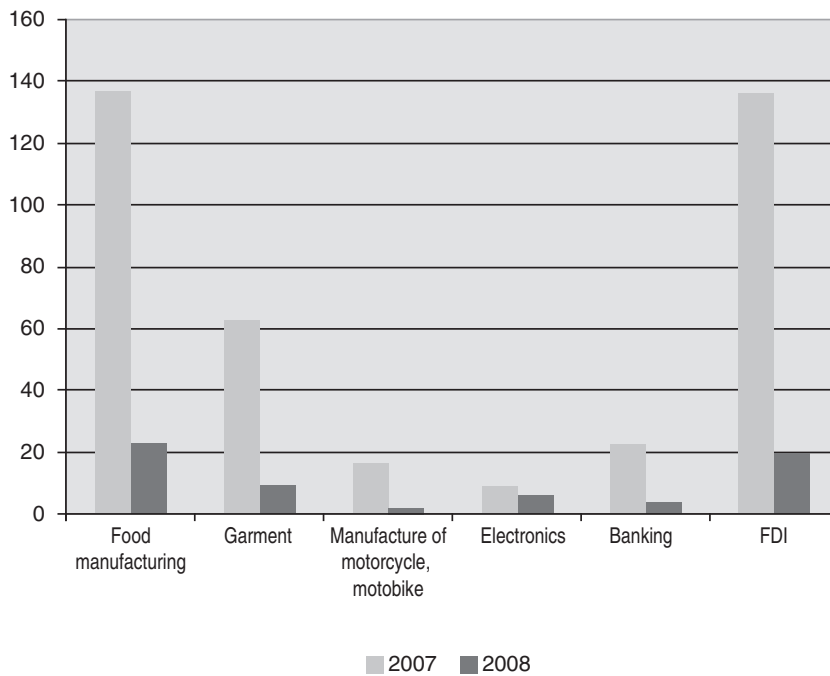


Figure 3.10: Number of firms engaged R&D

Unit: firms



4.2. Number of firms implementing new technology

Along with the decline in the number of enterprises engaging R & D, the number of enterprises implementing innovative technologies reduced significantly in 2008 compared to 2007 (Figure 3.11). With no more than 0.4% of firms renewing technology in 2008 (except electronic sector) number of enterprises implementing technological innovation is even less than number of firms engaged R&D activities in the same sector.

4.3. Number of research programs

Figure 3.12 demonstrates on number of firms' R&D activities. Together with the decrease in number of firms engaged R&D, amount of R&D activities in 2008 also reduce significantly than 2007. With the exception of the banking sector achieving 90% level of 2007, this rate was only 21% in garments and 10% in food manufacturing.

Especially, this rate was only less than 5% in sectors of electronics and manufacture of motorbike, motorcycle, although funding for R&D and technological change was fairly high. Most of cost for R&D and technology renovation was used for procurement of new machine and there weren't R&D activities to develop technology knowledge of firms and in Vietnam. It is worthwhile to note that the weakness of R&D activities in FDI companies which account for majority in sectors of electronics and manufacture of motorbike, motorcycle shows that the spillover effect of technology and knowledge is far from expectation within these sector and in the economy.

4.4. Number of technical initiatives

One measure of R&D activities is the number of technical initiatives, and the amount of technical initiatives of firms in 2008 was reduced in comparison to 2007. In 2008, within the electronic and garment sectors, the

Figure 3.11: Number of firms implementing new technology

Unit: firms

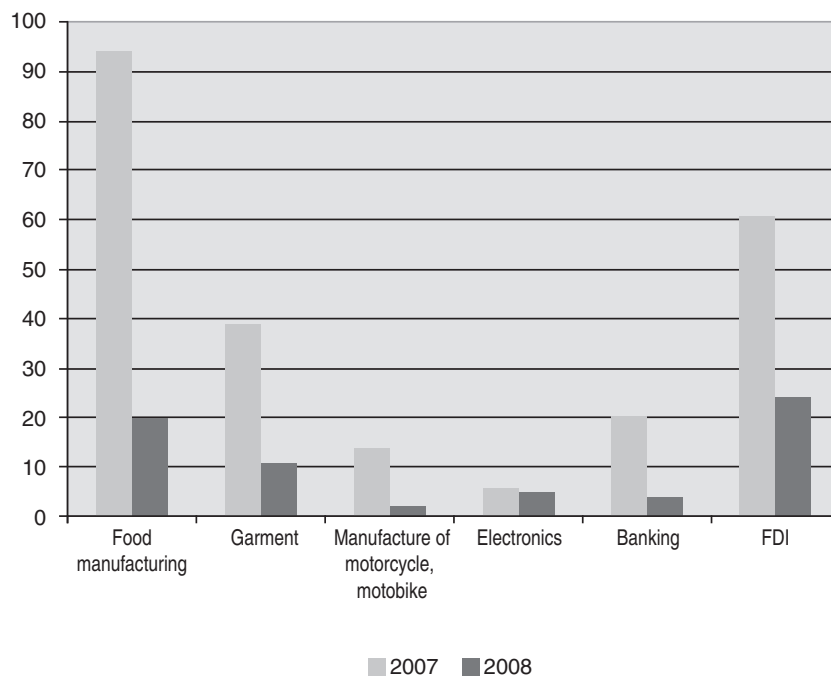


Figure 3.12: Number of scientific research subjects and programs

Unit: number of activities

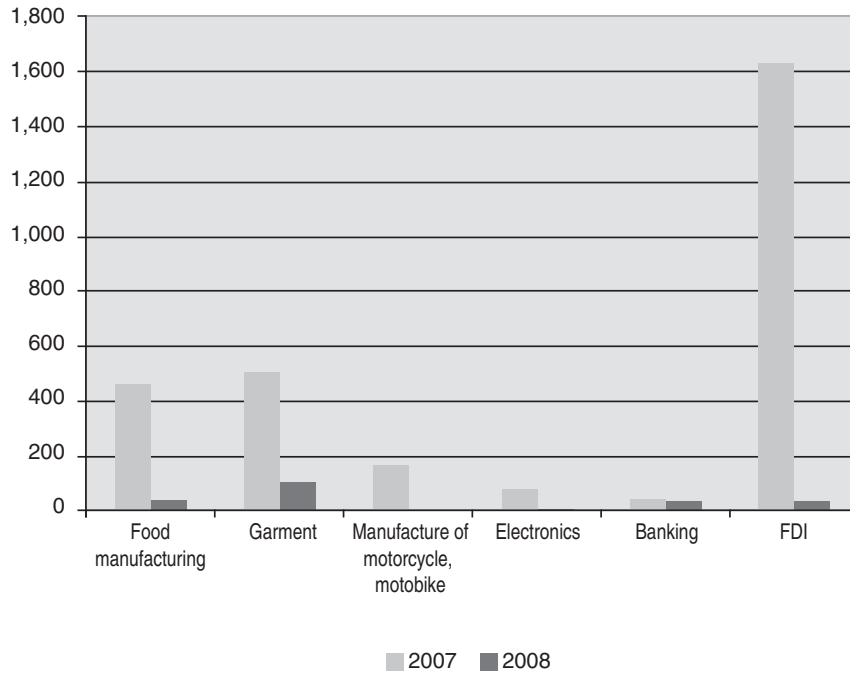
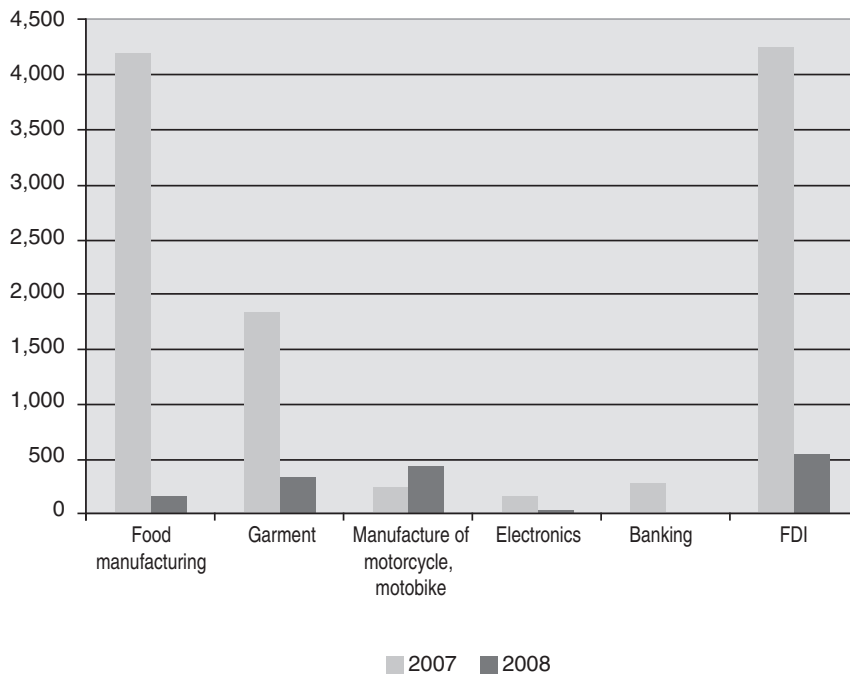


Figure 3.13: Number of technical initiatives

Unit: number of initiative



ratio of companies having these activities reduced to 20% compared to 2007. Meanwhile within the food manufacturing and banking sector, this ratio was only 2% and 4% respectively. This is a worrying situation and it shows that firms had nearly no innovation activity in 2008. Perhaps inflation and the global economic crisis in 2008 had a bad impact on firms' business and R&D activities.

While the number of technical initiatives fell seriously within some sectors, this amount went up 73% in the motorbike and motorcycle manufacture sector in 2008. This was a big decrease and accounted for 0.37% of total firms within this sector. Indeed, innovative technical methods and R&D were only implemented by two firms in this sector.

4.5. Firms' capacity of information technology application

Firms' capacity of information technology

application is demonstrated across three indicators as follows:

1. Trends in internet access: percentages of firms with internet access to total firms of sector (Figure 3.14 and Table 2.15 in the Appendix).
2. Trends in the use of websites: proportion of firms using their own websites to total firms of sector (Figure 3.15 and Table 2.16 in the Appendix).
3. Trends in e-commerce: percentage of firms applying e-commerce to total firms of sector (Figure 3.16 and Table 2.17 in the Appendix).

As by theory, being considered as the technological paradigms of the international business cycle, the indicators on information technology applications in business partly reflected the technological capability of enterprises, particularly for those industries where information technology plays a key role such as banking sector.

Figure 3.14: Number of firms with internet access

Unit: firms

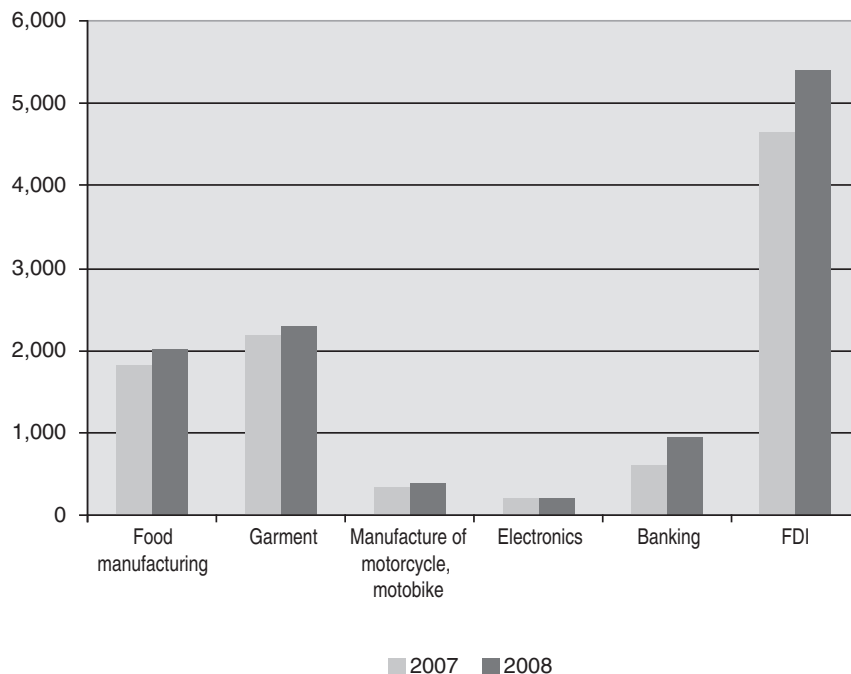


Figure 3.14 indicates that, along with trends in the use of the internet, there was an increasing trend towards internet access by firms in 2008. Especially, a very high increasing rate of firms with internet access was found in banking (50%) and a similar level was found in all other sectors except food manufacturing. The motorbike/motorcycle manufacturing sector has this ratio at 70%.

Trend to use website as a tool of business enterprises also increased in 2008. Strongest growth rate was in the banking business (82%), followed by manufacturing businesses and motorbikes (54%), electronics firms (44%). The lowest level was in the sectors of garment (31%) and food manufacturing (23%).

Actually, Vietnamese garments and food products have taken increasingly proportion in the structure of exports to EU countries and the U.S.A. So the fact that companies of

two these sectors haven't yet developed website, at least as a marketing tool and introduce businesses as well as their products, is incompatible with the trend of the world, showing their limited competitiveness. In fact, the cost to design and maintain website is very small compared to other cost. When the business has no Website, it represents a weakness in its business strategy and vision.

The highest use of e-commerce was found within firms in the banking (nearly 90%) because information technology is core in this sector and this increased rate is corresponding to international integration. However, the proportion of firms applying e-commerce across the total number of firms was very low. This rate was found in less than 3% of firms within the five studied sectors. The main reasons were lack of legal framework and development strategy. So e-commerce has not made much impact on Vietnam firms' development.

Figure 3.15: Number of firms using their own website

Unit: firms

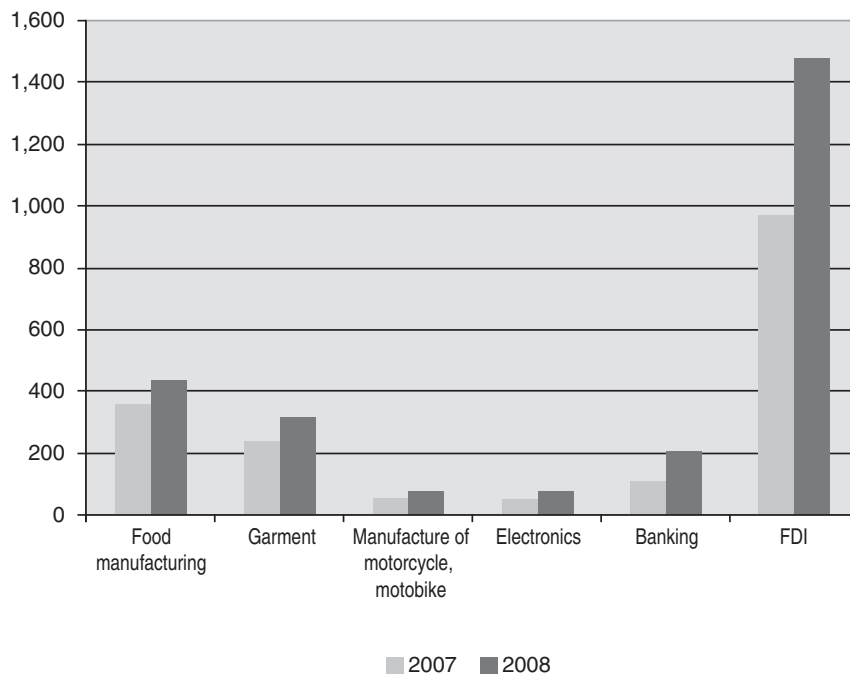
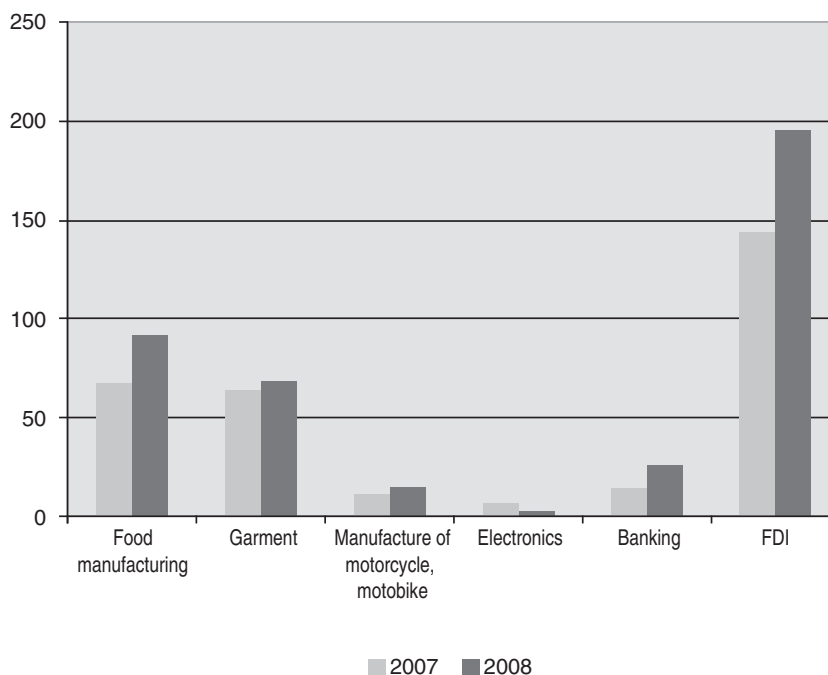


Figure 3.16: Number of firms regarding e-commerce

Unit: firms



5. Assessment of innovation capacity of FDI sector

Innovation capacity of the FDI sector has been indicated in Figures 3.1 - 3.16 and Table 2.18 in the Appendix. In 2008 the number of FDI firms increased by nearly 14% in comparison to 2007, despite the global economic crisis and unstable market. However, the effect of economic turmoil has been demonstrated clearly through the proportion of firms having a loss. More than 50% of FDI firms showed a loss in 2008, about 5% higher than 2007. This loss is partially due to “price transfer” phenomena at FDI firms which have been accepting loss, but trade-off their products advantage to mother companies abroad²⁰.

In 2008, productivity was improved more than 15%. A higher level was found in FDI firms in comparison the other five sectors.

This ratio also indicates the quality of labor including a higher level of skills and knowledge.

The ratio of fixed assets to total assets is approximately 40% within FDI firms and although it fell in 2008, it was clearly higher in comparison to the five sectors analyzed above. It means FDI firms invest in fixed assets and equipment more than average level of five sectors.

Technological level is indicated by capital capacity and this ratio was improved more than 15% in comparison to 2007. This indicator in the banking sector is higher than in the other four sectors. This rate shows an effective utilization of capital and technology innovation.

The ratio of fixed assets per employee increases in 2008, although the percentage of fixed assets to total assets decreases. It

20. <http://vtv.vn/Article/Get/Nhieu-doanh-nghiep-FDI-co-tinh-thua-lo-91dd65215b.html>

means the technology level of FDI firms' was improved in 2008 and higher than the average level of the five sectors.

Though affected by the economic crisis, the ratio of investment in fixed assets to total investment of FDI firms did not change from 2007 to 2008 and it continued to account for 70%. FDI firms had an investment structure of fixed asset at the rate of $\frac{3}{4}$ and it's higher than the average level of five studied sectors.

In 2008, the proportion of scientific staff to total labor of FDI firms decreased more strongly than in 2007. This indicates that a lack of highly skilled labor was not only a problem for the five studied sectors but also for the whole economy. Technological change cannot take place if there is a lack of human resources. A simply skilled labor force is available, however there's clearly a lack of highly skill labor. This leads to a decreased competitive in the Vietnamese economy and limits development.

As mentioned above, technological change can be implemented from abroad or internal R&D. Although FDI firms have a higher level of technology than the other five sectors,

funding for R&D falls more strongly than in 2007 and stands at the average level of the five sectors.

The number of FDI firms engaged in R&D and technological change in 2008 was less than in 2007. So the number of research programs and technical initiatives of FDI firms in 2008 was less than the 2007 level and was at the average level of the five sectors. It indicates again the affect of the crisis on FDI firms and it has given no optimistic signs of a spillover effect from FDI firms. This expectation will not realized if the speed of R&D and technological change of FDI firms is even less than the average level of the economy (at least in comparison to the five sectors).

As for all other firms, most FDI companies had internet access whilst the number of firms having their own website grew from 20% in 2007 to 26% in 2008. This rate was higher in comparison to the five sectors. However, the percentage of FDI firms engaged in e-commerce was very low and accounts for only 3% of total firms and at the same level of the five sectors. It shows the weakness of using e-commerce in Vietnam in general.



HOUSING CONSTRUCTION INVESTMENT JOINT STOCK COMPANY HOUSING GROUP

“HOUSE OF EVERY FAMILY”

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Chairman of Board Director cum General Director: Dr. Chau Thi Thu Nga



President Nguyen Minh Triet awarded Vietnam Typical Businesswomen prize - Gold Rose Cup 2010 to Dr. Chau Thi Thu Nga, Chairwoman cum Director of Housing Group



Ceremony of starting construction of Trade and Office Center cum housing Housing Garden in Dong Văn District, Hanam Province

With the sense of HOUSING – Warm house of every family, we are not only improving the physical to serve every family and everyone but also the plentiful character to spirit life of each person in social. So that, in addition to specific investment, we continue to invest in education and culture projects.

In ten years, Housing Group stated its quality and prestige to the partners and customers. Housing strengthened international cooperation, coordinated with foreign company to carry out many real estate project and products, construction interior products used for construction such as: wood doors, boxes, beds, table and chairs,... These activities shows that Housing Group extend to international market such as Spain, Dubai, Cuba

Implemented projects which created the believe of customers and partners Apartment Building for staffs in Cau Giay District, Business and resettle apartment building project in Phu Thuong area, Tay Ho District, Apartment Block and Garden House in Hoang Quoc Viet street, Thuong Dinh plaza, Sing Hotel in Giao Thuy District of Nam Dinh Province.

Being a head person in company with the self motivated, creation and hardworking, Dr. Chau Thi Thu Nga who is Chairwomen cum General Director of Housing Group combines force with Leader Boards to lead Housing Group get many achieves in many years. In addition to create prestige to construction community, attended to many social and charitable activities, sponsors to many large sense social program,she achieved many highligh awards from Government, Communities and prestige organizations such as: Gold Rose Cup in years 2006, 2007, 2009 of Vietnam Chamber of Commerce and Industry; Talen Woment in “Doi moi” period prize of Governemt, Gold Cup of businesswoman, Culture Businesswoman Title, Thang Long Businesswoman Title,...

PART IV

INNOVATION AND TECHNOLOGY APPLICATION ISSUES IN SOME SECTORS

1. Innovation and application of technology in supporting industries

1.1. Development situation of supporting industry

In recent years, Vietnam's industry has been developed in direction of processing and assembling. The growth of Gross Output value (GO) is always higher than the growth of Value Added (VA). In other words, the rate of VA of Vietnam's industries has shown some decreasing trends. According to the Institute for Industry Policy and Strategy (Ministry of Industry and Trade), the ratio of value added in the value of the whole industry was 42.5% in 1995, decreased to 38.45% in 2000, 29.63% in 2005, and 26.3% in 2007. This is certainly a consequence of the weaknesses of supporting industry (SI).

The fact that the current race to attract investment in the national level, particularly in the provinces after the decentralisation has made achievements in high quantity, but the quality of investment hasn't been carefully monitored. Therefore, Vietnam has accepted too many low value added industries. Expression of these group of industries are: low added value, consuming resources and especially energy at the large scale, rare technology transfer, using traditional technology and attract fewer workers, mostly laborers with low skills;

harm the environment. The Part III of this report shows that efforts to spread the technology from FDI to the domestic enterprises were very limited, indicating that the goal of attracting FDI hasn't met the requirements in terms of quality.

Supporting industry (SI) was still a weak point of Vietnam's economy. In theory, SI creates the value added for industrial production, contributing to development of productive capacity thereby creating more jobs. However, 70 to 80% of supporting products of assembly companies were still being imported.

In order to strongly develop after the crisis, restructuring is required in two areas: To implement all the polices from attracting investment, monetary financial policies, labor and salary policies, etc, as a whole. Simultaneously, it is important to encourage industries which have high value added and low demand of consumption of natural resources and energy, reduced pollution and which are highly focused on development of supporting industry systems. Mechanicals, cars, motors, electronics and garment industries are supposed to take the lead in promoting the supporting industries in Vietnam.

In order to develop and integrate (open domestic market, entering foreign market), developing SI is considered a smart and most feasible choice for the countries like Vietnam, for the following reasons:

First, only with this measure can Vietnam take advantage of their competitiveness within the global value chain, which has developed in both width (geographical scope) and depth (production splitting and types of intermediary products).

Second, SI's development is a process of participation and expanding direct outsourcing activities that leads to an accumulation of technology and skills to producing key elements for an industry's development. From these bases, the companies (of domestic industry) will enhance the technology standard of their products and reach international standards. Third, SI development is an appropriate choice: it can meet the appropriate levels for countries like Vietnam. As the technology gap between developing and developed countries is too wide it's impractical to expect to use similar advanced technologies.

Moreover, with the faster and faster pace of technological development, the life expectancy of an industrial product is shorter and shorter; the structure of new products is more complicated due to the application of many technologies, which makes the competition to products like cars, electronic transistors.. of the companies from late coming countries much harder.

1.2. Companies' competitiveness in Vietnam's supporting industry

SI impacts on companies from many sectors, being mainly: mechanics, cars, motors, electronics and garments. In order to give an overview on the capacity of companies in Vietnam's SI, this report reviews statistics from the recent VCCI research, conducted December 2009 across 54 companies, and supported by the JERI (Japanese Economic Research Institute). The purpose of this survey was to find out the potential companies to support.

Thus, the results are just a reflection of the situation in companies which need support on SI, and it does not show the overall situation of SI in Vietnam.

The normal practice of SI is that there are a lot of small and medium enterprises (SMEs). According to Vietnam's law, "small and medium enterprises" are units of independent producing and trading, which are established and operate according to the law of Vietnam. Those units' registered capital is less than 10 billion Vietnam Dong, or the average amount of employees is less than 300 annually. However, SI has not only involved SMEs but has also involved large and foreign invested companies. Current research has just focused on Vietnamese companies, including 11 companies in Ho Chi Minh City and 43 companies in Hanoi.

The capital structure of the companies which participated in the research is divided as followed: corporations and limited companies (Ltd. Co) were both at 37%, companies of 100% private capital accounted for 16.4% and state enterprises were 9.6%.

On average the companies had an average of 222 employees, fluctuating from 6 to 2894. Half of the companies had less than 75 employees. The amount of SMEs (with less than 300 employees) was 85%.

1.2.1. Entrepreneurship

Most of the heads of surveyed companies were aged between 30 and 50. It was estimated that 80% of these heads graduated from university or college. Few are from high school, but they have learnt skills from their relatives. The heads of companies are proud of their skills and considered that was the main inspiration for them to start-up business. They really want to take advantages of their skills to make value added for their products and

company. Only 26% of entrepreneurs had to start-up business due to a need for money.

About 70% of people had technical background. Only 7% had majored in Marketing - this is an important point because it requires a lot of complicated marketing skills in SI. Although being the heads of companies, most of them weren't considered by themselves smart leaders (there are only 20% of the interviewed affirm this). Most of them consider themselves strategy makers or technicians.

1.2.2. Products and market

The products of the 54 surveyed companies were various, mostly concentrated in the following groups: mechanics processing, metal mechanics products, pattern, and plastic, civil mechanics products. Table 4.1 introduces the processing methods employed.

Most of the products of these companies are the detailed parts of products like: passenger cars and trucks: 20.8%; household electrical equipment: 19.7%; audiovisual electrical products: 18%; motors: 8.2%; automatic office equipment: 7.6%; other products: 25.7%. On average 44% of revenues were gained from industrial markets. Most of the clients were domestic companies - accounting for 62% of clients. 27% of clients were 100% foreign invested companies and only 11% were joint stock companies. The structure of ownership of clients shows that the SI companies haven't gained the trust from foreign companies yet. In fact, the 100% foreign invested companies often establish joint stock companies to supply the parts for them, that's the reason few joint stock companies are clients of Vietnam's companies. About 38% companies in the research were used to working with Japanese clients. However, this has only really started in the last five years.

Table 4.1: Processing methods in companies

Processing method	Applied companies rate (%)
Founding	11.8
Pressing/ Compressing	1.2
Pressing/Extruding	12.7
Plastic founding	6.8
Rubber founding	3.8
Mechanic processing	18.6
Heat handling	8.6
Surface handling/Electroplating	8.3
Manufacturing	2.9
Planks handling/ Electric welding	9.2
Assembling/Cluster of parts	13.9
Others	2.2
Total	100

Results of research by the Japanese External Trade Organization (JETRO) in 297 companies in South and Central Vietnam showed that the companies who make precise component (for electronics part) in plastic and rubber processing are short of meeting the requirements for Japanese companies.

According to this report, one of the reasons was the lack of product testing mechanisms. In mechanics processing, including accurate mechanics parts, plating and surface handling there are very few factories which can produce parts which accurately meet Japanese requirements. For instance, the metal component's processing for motors is messy and quality of serie of products is not consistent.

In the cable and electrics components manufacturing industry, there are some private companies which try to meet the requirements of Japanese companies, but it needs to invest in production equipment and product testing machines.

Clients of companies in SI are an problem, that depends much on delivery (market volume). As the domestic market is not big enough, in order to have effective trading, companies in SI should intensify exporting. In fact, only 9% of research companies directly exported and 16% indirectly exported. The number of companies with indirect exports once again proves the limited marketing ability of Vietnam's SI companies.

1.2.3. Technology and supplier

Suppliers of companies in SI are mainly domestic companies. FDI companies are 25% of total suppliers. Quality was the most important criteria by which respondents chose a supplier, followed by a "sound price". Some SI companies have suppliers pointed by their clients. This is reasonable because, the clients want to make sure on consistency in the supply chain.

Companies in SI were equipped with machines imported from many countries; however, most of them were from Japan, Korea, Taiwan, and the EU. Most of the machines were manufactured before 2000. About 62.3% of companies thought that the current machines were suitable, and 32.1% thought they hadn't taken full advantage of the machines' capacity. The amount of companies with excess capacity was only 5.6%.

1.2.4. Strong points, weak points and the challenges

Other results²¹ of companies in SI have given a united judgment of current strong and weak points of these companies.

Strong points:

- Most of companies which were chosen to be interviewed have gained stable bases such as: mills with basic standards, quality of products meets some requirements of foreign companies, labor force with technical skills and experiences, stable amount of clients and orders. These are the basics required if a company is to develop.
- Ability to utilize new technology.
- Paying attention to product quality.
- Planning for development, buying equipment and expanding production in the future.
- Hard-working, skilled labor force. Willing to learn, taking every capacity and creativity of human resources to cover up the backwardness of technology.
- Being flexible in the production process. Flexible means producing in accordance with the demand of clients. Whatever type of product the clients need, companies should try to satisfy. However, this can also be considered a weak point if the companies do not focus on core production and a demand of certain group of clients.

Weak points:

- Few types of products, mainly simple spare parts with the low value added,

21. Conduct survey 55 companies by JICA-VCCI-CONCESTI.

many products have not been high enough quality for the global industry chain.

- Lacks of specialization, all company are following an “everyman for himself” approach. Meanwhile, for the producers in general and for SI in particular, it is necessary to specialize and co-operate to be most effective.
- Lack of trading strategy and orientation to develop, which leads to a lack of comprehensive investment in equipment. Taking mechanics as an example; due to the specific characteristics of the industry, most technology and materials are imported. Thus, firms were interviewed: to meet a few orders, each unit re-entered a kind of machinery, production process and as such, the enterprise is enormous waste. Therefore, in general, companies are very careful when investing in equipment and slow in upgrading technology. Besides, many companies had not covered the investment cost so did not attempt to invest much in production.
- ***Spread out, unfocused investment.*** This originates from the “flexibility” of production of Vietnam's companies as mentioned above. Being flexible in producing in accordance with the orders but lack of focusing on the majority, lack of trading orientation and development strategy. Some domestic companies invested 40-50 billion VND in assembling but they hire others to do difficult stages.
- ***Limited marketing capacity, being passive in finding orders and approaching clients or have not got effective methods for approaching clients:*** many interviewed companies said they usually wait for a big order to

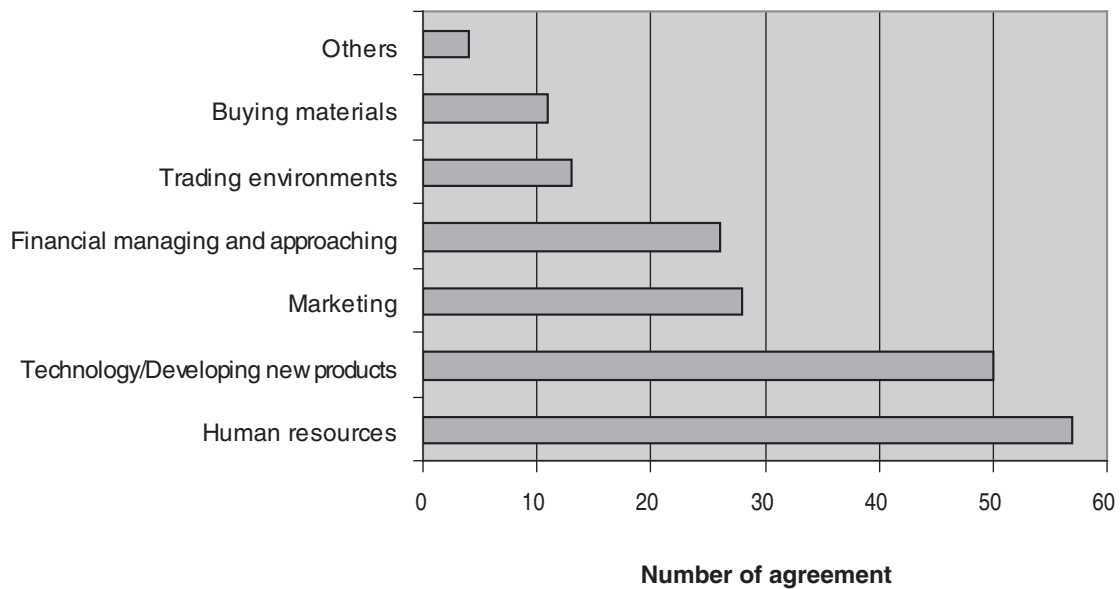
increase the production scale. This leads to a situation either (i) size and quality of the enterprises have not yet met the requirements of large orders, or (ii) by accessing to large orders, partner again asking too much specialized products/ and unspecialized products causing confuse for Vietnamese enterprises.

- Lack of medium and long-term investment. Banks only offer short-term loans to SMEs but it's necessary for SI to have the most modern machines as it is a prerequisite condition for creation of high quality products. Thus, the companies need medium and long-term capital resources to invest in machinery, improved equipment and enhance techniques. Besides, SMEs have not got collateral so it is harder for them to get a loan.
- A shortage of technologically skilled labor which meets the requirements of high and accurate quality of SI. According to the survey, the rate of human resource fluctuation of companies in SI is relatively high: about 5%/year. Besides, the companies in research also point out the difficulty in finding human resources with the appropriate technical skills.

Challenges:

Figure 4.1 shows some problems which companies have to overcome (based on the assessment of companies themselves). Human resources are considered the primary difficulty, with 57% opinion of “agree” in the research. Next is technology and development of new products (50% agreement) and in third place is the issue of marketing with 28% agreement. For the companies in SI, the trading environment is not a big problem in comparison with the above issues.

Figure 4.1: Challenges for companies in SI



1.3. Some issues of developing supporting industry in Vietnam

SI is determined to be a difficult sector for development and particularly in a country like Vietnam which has a low level of development. This is not only because of high requirements of technology and human resource but also because of tough demand from clients.

In order to develop SI, it is necessary to implement various methods and on a big scale, from training human resources and transferring technology to improving tax systems, financing mechanism and commercial linkage.

Besides, it is necessary to study the key issue which is how to drive foreign investment capital into Vietnam by attracting foreign companies which produce spare parts to invest and develop trading in Vietnam's domestic companies.

Also the development of SI requires a suitable policy from Vietnam's government.

In 31st July 2007, the Ministry of Industry (currently known as Ministry of Industry and Trade) announced Decision no 34/2007/QĐ-BCN, which approved a project for developing SI in Vietnam through to 2010, with a vision set for 2020. These strategies and projects have however remained just on paper.

Given the above issues, this report is drawing some suggestions to the development of SI in Vietnam as follows:

1.3.1. To Governmental Agencies

Polices and regulations need to be announced to help companies achieve active and smooth operation. It is also a necessary to have equality in supporting policies for every company in every type of industries.

Specific action programmes should be implemented for developing policies of SI, accordingly, state agencies and national promotion organizations can be allowed to strengthen their power along with their responsibility.

The action program of developing SI should be comprehensively implemented, and can include the following methods:

- **Creating capacity and developing human resources:** study specific requirements of domestic suppliers to improve the training programs in technological universities and vocational centers, and establish organizations to promote development of SI.
- **Finance:** Supporting the SI companies through a financial support program for SMEs; enhancing the capacity of banks to evaluate and supply loans for SI companies; developing deposit bailout funds, have loans supported by government and mortgaging without collateral.
- **Marketing and attracting FDI companies:** It is necessary to make clear the role of Vietnamese suppliers and FDI companies in each sector; establishing the small/big industrial zones, building factory for companies to hire and support them in management.
- **Cooperation between domestic and FDI companies:** Creating an updated and sufficient database of potential suppliers; establishing a standard comparison system to support SMEs in achieving similar standards with the ones which are applied in large and FDI companies.
- **Completing legal bases to develop SI:** Announcing the decree of developing SI; studying the supporting policies for SMEs and enhancing

capacity for the government agencies which are responsible for supporting SMEs in SI sectors.

1.3.2. To companies

Companies should play a decisive role in developing SI. In order to do this, it requires efforts from two angles: within individual companies and cooperation between companies. They should focus in the following issues:

- Enhancing pro-activity in finding markets: It is necessary to note that this is an industrial market, therefore companies should be aware of the rules of changing in the global value chain. In particular, as the size of the domestic market is limited, companies have to be more active in finding foreign partners.
- Renewal technology to meet the demands for quality and price: Taking advantage of every chance to utilize modern technology with the supporting from the clients themselves. This is the win-win competition. If companies in SI know how to take advantage of chance, they can be successful²². Foreign experts have recommended some specific methods such as²³:
- + Vietnamese companies have to change the thinking which currently prevents the development of SI, which is the passiveness in acquiring new technology or new ways to approach trade with foreign companies. Employees in companies should be encouraged and given chances to enhance standards and broaden their experience.

22. Results of survey by JETRO in 68 Japanese companies which are operating in Vietnam shows that most of companies are weak and 50-90% of parts are still imported, while the Japanese companies which are operating in Thailand use 70-90% of parts that are made in native country.

23. Kenichi Ohno, Vietnam Development Forum. Manufacturing cooperation Vietnam – Japan to develop SI. 22nd August 2008.

- + Transferring technology and enhancing the capacity for SI and human resources are key issues. Companies should acquire unified knowledge of advanced skills in manufacturing and production; besides, the inventions and patents have to be supplied to the companies with the reasonable prices.
- + Companies should commit to follow the international standards from the beginning, in terms of product quality, safety, environmental protection and intellectual ownership rights to be able to compete in any market in the world.
- + Affirming the position of products in global value chain. companies should specialize in manufacturing core products – parts are required to be made by skilled worker, at the same time they still to continue to buy input products and services.

Developing SI will not only enhance the competitiveness of Vietnam's companies but will also create suitable conditions for attracting foreign invested companies, thus heading towards the goal of Vietnam being be a country with an average industrial level in 2020.

2. Developing and innovation in electronics companies²⁴

2.1. Developing situation of Vietnam's electronics

Vietnam's electronics industry was restructured and began to develop from the mid-1990s, when Vietnam was promoting the reformation and integration process.

Over more than a decade, Vietnam's electronics industry has achieved much and

contributed to the economic and social development of Vietnam. From producing only electronic consumer products for the domestic market, Vietnam's electronics sector has begun to produce electronics and computer parts for export, as well as design some electronic products; In the early 90s, there were only 50 companies in the whole of the electronics sector - now there are nearly 300 companies (1/3 with foreign invested capital), employing 120 thousand staff, with sufficient production capacity to meet the domestic demand for electronics, informatics and telecommunication, and with an average growth of 20-25% annually. Before 1996, Vietnam's electronics industry has not exported anything; in 2009, Vietnam exported to nearly 50 countries regionally and internationally. Export turnover of this sector increased nearly 20 times in 10 years: exported 90 million USD in 1996 and 1.77 billion USD in 2006. Since 2005, the electronic sector has achieved an export turnover of more than one billion USD and is becoming one of the 10 biggest exporting sectors in Vietnam. Export turnover has continued to increase over the last three years: 2.2 billion USD in 2007, 2.63 billion USD in 2008 and 2.78 billion USD in 2009, which makes electronic products the 6th biggest export sector in Vietnam. The major exporting products in Vietnam's electronic are spare parts, computers and printers. Domestic market's revenue has also doubled in the last three years: from 1.6 billion USD in 2005 to over 3 billion USD in 2008.

Although Vietnam's electronic sector gained many significant achievements in its first decade of establishment, there are still some inadequacies, such as: the imbalanced structure of products between consumer electronics and specialized electronics (70%/30%); the level of technology is low; research and development into new products is weak;

24. Compiled by Dr. Tran Quang Hung.

companies' competitiveness is not high and supporting industry and parts production develops slowly and does not satisfy the requirements of producers. Most of Vietnam's electronics companies are medium and small. Their financial and technological potentials are limited; therefore the competition from foreign companies, even in the domestic market, will be very tough, not only in production but also in distribution and services. Foreign invested companies (FDI companies) play a key role in Vietnam's electronics. Though the number of FDI companies is only 1/3 of Vietnamese companies, these FDI companies own high technology, and have 80% of market shares in Vietnam and 90% of export turnover.

2.2. Electronics of Vietnam in 2009

2009 continued to be affected by the global economic crisis, which started in late 2008. The greatest impact was on the weakening of foreign investment and exports. Worldwide consumer demand for electronics products decreased dramatically, so the famous electronics companies reduced their production which caused adverse effects for Vietnamese companies which produce parts for electronic products and computers for exporting. Signed contracts for export parts, processing and assembling were cancelled or the scale reduced and new contracts, which had been negotiated, were not signed by partners. Therefore, in early April 2009, the productivity of Vietnam's electronics was reduced by 8% in comparison with the same period of 2008. But since May 2009 to the end of 2009, the demand of international market for parts for electronics and computers showed the signs of increase and Vietnam's electronics had a miraculous recovery. Turnover of exporting in 2009 was 2.774 billion USD. It is estimates to grow 5,1% in comparison with 2008²⁵.

Vietnam's electronics sector was seriously affected by the financial crisis and global economic downturn, however, due to the advantages of the stable socio-economic situation, open investment environment and substantial human resources, Vietnam's electronics' export turnover still grew and attracted much foreign investment capital in 2009. For example, big projects like the one to build a factory to produce SAMSUNG cell phones which has just began in Bac Ninh northern province with nearly one billion USD capital.

In distribution, apart from bearing the consequences of the global economic crisis in 2009, Vietnam's electronics had to face a big challenge: due to membership of the World Trade Organization (WTO), since 1st January 2009, 100% foreign capital retail companies were allowed to establish and operate in Vietnam's territory. This placed domestic retailers, which are not as strong as the foreigners in terms of capital, sales, input price and experience of retail, into unequal competition and it could cause the loss of Vietnam's domestic electronic distribution. However, in over one year since the opening of the retail market, no big fluctuation in Vietnam's market have been evident, especially the market of electronic consumer products. Foreign retailers met many difficulties in terms of finding space for trading. They were forced to apply for the permission of state management agencies while they built the second retail space and they needed two to three years to set up a complete operation system and study the psychology of the Vietnamese. Taking advantage of foreign distributors' not-yet-powerful trading operations, Vietnam's distributors diversified their products and promoted the retail system in many provinces. Instead of distributing only one type of product, retail systems have expanded to many other types. Some

25. *Nguồn:* Tổng cục Thống kê.

distribution companies, like A Telecom, just distributed cell phones, now they have expanded to other high-tech products like laptops, cameras, MP3 music players, PMP entertainment devices etc. New shops such as The Gioi Di Dong, Nguyen Kim, or HC, Pico have appeared and changed the trading landscape. The implementation of WTO commitment in terms of distribution had a positive effect on the electronics retailers of Vietnam; it drove them to change their trading and services methods. It is easy to see that in the last 1-2 years, large scale electronics supermarkets have developed rapidly and gradually replaced the small electronic shops. The roaring development of electronics supermarkets in Hanoi and the competition between the electronic equipment markets had increased demand for buying electronic products. In the context of the global economic crisis, it was a remarkable phenomenon for distribution of this sector.

In 2009, it wasn't only distribution companies which expanded their trading and diversified, but also production companies. Because most of the electronics companies in Vietnam are equitized, under the pressure of market and shareholders and the effects of economic crisis, it was necessary for companies to diversify their production and trading operations in order to survive. This was necessary even for the big companies. Vietnamese electronics companies tried to find solutions with new products and trading models. With the unequal competition from strong foreign companies, Vietnamese companies, which were weak in terms of financial potential, technology and product models, were losing market share in the new big urban areas and they had to target other consumer groups: low-income citizens in mid-land and mountainous areas of the South, Central coast, South West Vietnam, etc. Some other companies shifted to processing products and cooperating

with domestic and foreign partners. Companies are in a transition phase; they have to reduce trading in traditional products to expand operations in other sectors and services with greater profits such as: distribution, real estate trading and security transaction.

The development of this sector in 2009 showed that although the global economic crisis caused a downturn in many economic sectors, in a "flat world" where the applications of electronics, information technology and telecom are inevitable in any socio-economic sector, the demand for digital products and electronic parts are growing rapidly in the world market. Electronics has recovered strongly after the temporary recession, and it continues to grow. According to opinions of some experts, Vietnam's electronics industry has the potential for sudden growth in the near future and if there is a proper trend of development, electronics will become one of the powerful sectors in Vietnam in the next few years for the following reasons:

- The international demand for electronic and information technology products is huge and growing stably. Due to the effects of the global economic crisis, the speed of growth of the world's electronic sector slowed a little in 2008-2009. According to statistics from the Japanese Economics Industry and Information Technology Association (JEITA) in 2008, the net growth of the electronics industry in the world is 2,370 thousand billion Japanese Yen, and it is forecasted to reach 2,410 thousands of billion Yen, an increase of 2%. After the slowdown in 2008-2009, the world economy has improved again and it expects reach a rate of 8-10% in 2012 with the prediction that specified IT, telecoms and electronic devices will have a higher growth rate than the electronic consumer products. The data

treatment devices market will have an average growth rate of 8.5%, 11% for telecoms devices, 8% for specified electronics devices, and only 5% for the electronic consumer products. Two products which are forecasted to have high a growth rate are computers and cell phones. According to the forecast of the International Data Corporation (IDC), the growth rate of computers, including desktops and laptops, will be 10-12% in 2010–2012, while it is 12-12.5% for cell phones. Along with the growth in demand for computers, there will be increased demand for printers and other terminal devices. The growth of these two products will lead to an increase in the demand for electronic and computer parts, which are strong points for Vietnam's exports.

- In recent years, the wave of foreign investment into Vietnam's electronics industry has increased strongly, with huge projects like: Canon corporation's construction of the largest complex in the world to produce printers in Bac Ninh province; the one billion USD packaging and electronic checking chip factory by Intel corporation; the 5 billion USD project to build a complex to produce electronic parts by Foxconn (Taiwan) and the construction of a factory to produce SAMSUNG cell phones, worth nearly 1 billion USD.
- For electronics and computer parts, the biggest competitors to Vietnam are Malaysia, Thailand and China. However, Vietnam enjoyed the advantages of labor force and a stable socio-economy, and there is a transition of investment from these countries into Vietnam. For China, apart from the advantage of labor cost in Vietnam, the economic development, which is considered to be hot that is also causing the transition of investment from big electronic corporations into Vietnam.

It is possible to state that there is lots of potential for Vietnam's production and export of computer and electronic parts in the coming years. According to some experts in this sector, when all the investment projects of big electronic companies in Vietnam are running, the export turnover of this sector will reach 10 billion USD. This assessment is reasonable because once Intel's packaging and chip checking factory is operating there will be about 5 billion USD of exports annually, not to mention that the factories of Foxconn and Samsung will also contribute billions of dollars each year.

2.3. Innovation's trend in electronic companies in Vietnam

Although technology plays an important role in electronic companies, technology reform - especially high-tech application in Vietnamese organizations - has not caught up with the rapid technological development regionally and internationally. This is apart from 100% foreign invested companies such as Canon, Fujitsu, Foxconn and, soon, Intel and Samsung, as they are forced to use high-tech equipment and renew their technology frequently to ensure the quality of export products (they usually export 100% of products like computer and electronic parts). Other FDI electronic companies, which make products to sell in the domestic market, are only applying technology at a moderate level which is enough to ensure the quality of their products in the domestic market. There are a few FDI companies of this type investing in new technology, but they just apply the technology which is already used in Parent Company or in other branches. Technology management of FDI companies is also tight and effective. They just apply the necessary technology for production, which is tested and exploits all the advantages of that technology.

For Vietnam's electronic companies, although they have awareness of the

importance of technological reform in the survival and development of companies in the integration process, most of Vietnam's electronic companies are medium and small companies with limited financial potential, thus, they face a lot of obstacles in investing in technological reform. Apart from financial resources, some technology and science policies are not suitable and inefficient investment from Vietnam's government is also preventing Vietnam's electronic companies from reforming their technology and applying high-tech methods. However, in the integration and development process, some top-ranking electronic companies of Vietnam have mobilized themselves, reformed technology to enhance quality, reduced prices, and increased competitiveness in domestic and regional markets. Binh Hoa electronics in Ho Chi Minh City has invested in technology of surface matching (SMT), the most modern production technology for export electronics parts. Skilled engineers and workers of this company not only managed this modern technology but also improved the machines to enhance productivity. They created testing devices and developed software for each new product instead of using foreign software or inviting experts to advise as before. CMS computer production factory renewed their computer production line and upgraded the testing equipment, so their products are in the top rank of Vietnamese brands for quality and quantity and can compete with foreign products. TQT Electronics Company (Nha Trang central province) has reformed technology to produce high-tech electronic devices such as a 10kW television generator, mobilized television devices etc., and their quality is equal to that of the foreign products. However, the number of Vietnamese electronics companies which are concerned with technology reform is low. Most of the companies are using old production lines with backward testing and measuring devices of generation about 10-

15 years older than other in the region. Technology management and reform in these companies has many inadequacies due to limited financial capacity and a lack of quality human resources.

According to statistics which were announced at the National Conference for promoting renovation at the end of 2007, the rate of investment into technological reform of Vietnamese companies was generally low; only about 0.2-0.3% of revenue, while this rate in other countries of Vietnam's region was much higher: 5% for India, 10% for Korea. Also Vietnam's rate of renewing machines and equipment was only 8-10% annually, while this rate in other countries in the region was 10-15%. Although supposedly a high-tech sector, the rate of technological reform in Vietnam's electronic companies is only just higher than =0.2-0.3% of revenue. Even in some top-ranking companies, this rate is just around 1%. Facing this situation, the operating and trading effectiveness of Vietnam's electronic companies is extremely limited. Domestically produced products require more manual labor than intellectual labor; there are few creative products and the value added of these products is low at only 5-10%.

Current and up-coming electronic products will be digital products, following the trend of integration of many features (electronic, information technology, telecom) into one device (digital convergence trend). Most of the devices are multi-function and operate mostly with any wireless broadband. Therefore, there will be more electronic devices in the near future and they will be smaller and tidier with many features requiring sophisticated parts, comprehensive and accurate manufacturing and matching technology. Thus, in order to survive and develop, Vietnam's electronic companies are forced to reform their technology to meet the higher and higher requirements of

products. For Vietnam's electronic companies, although having awareness of the importance of technology reform in the survival and development of companies in the integration process, most of Vietnam's electronic companies are medium and small companies with limited financial potential, thus, they face a lot of obstacles in investing in technological reform. On the other hand, the main operation of Vietnam's electronic companies in the coming time is matching and producing parts for exporting, so the trends of technology reform in the coming time will be as follows:

- ***Upgrade matching lines and increase capacity for measuring and testing products:*** The existing, older manual and semi-automatic matching lines can't be used for the tidy high-tech electric products which integrate many features. Totally automatic modern surface matching machines system (SMT), able to match hundreds of parts per minute are required. The testing and measuring process also requires many modern testing devices and they are totally automatic. Workers are only required to transfer and prepare materials, do a general check and wrap them. Only with these methods it can meet the tough requirements of modern electronic products, as well as delivery time can be satisfied.
- ***Increasing product quality of the industry sector which produces supporting products for electronics:*** it is necessary to renovate the technology for plastic laminating, extruding metal parts, precise plastic laminating by Computer Numerical Control technology. Only after that can the quality and style of electronic products can be assured.

2.4. Vietnam's electronic companies in the global value chain

The world's electronics market has seen fundamental changes over the past two decades primarily in two areas: specialization and globalization. It can be seen through the establishment of global production networks for electronic products with modern production capacities which serve the big electronics companies which already have trademarks. From the 1990s, the big electronic companies gave up on producing one product from beginning to end at their own factory, but started to call upon contractors. The companies focused on the most important phases like researching, marketing, sales and related services which have high value added in the production and consumption phases. The production process was divided into many phases which were distributed across many different countries according to specific requirements and conditions. This network involved large production factories and service suppliers creating a closed chain. Large corporation in the world use this network to reduce production and transportation costs. This network has been created and developed strongly especially in East Asia, and it has proved the huge producing capacity and high quality of the region to the top electronic companies in the world. Value chain contains production and trading activities such as researching, designing models, and producing, marketing, distributing and post sale services.

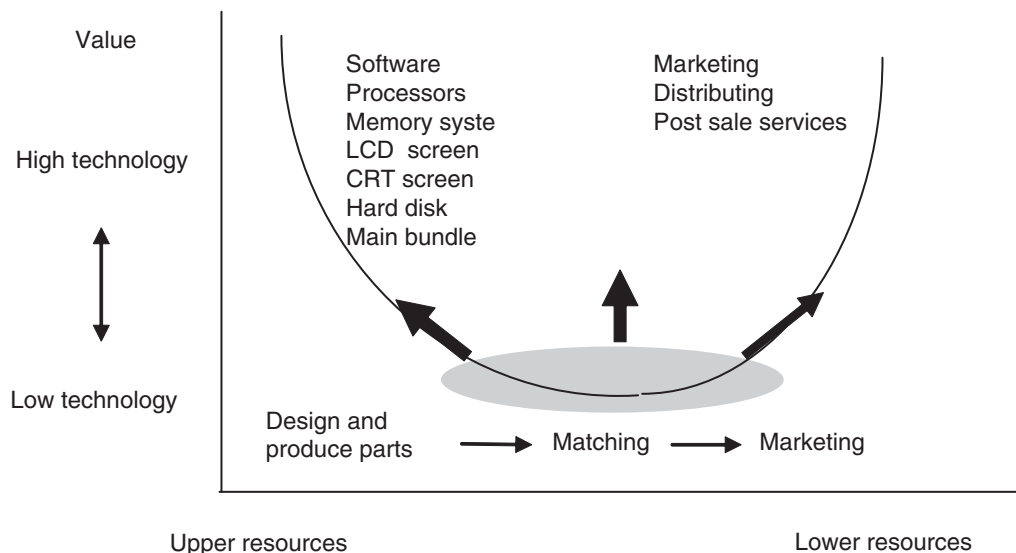
In the integration process with the regional and international economy, in order to survive and develop, Vietnam's electronics should join in the global value chain of the electronics sector. To do this, Vietnam's electronics sector should be defined itself

the current position in this chain. According to Kenichi Ohno, the position of Vietnam's electronic companies in the global value chain is stated in Figure 4.2.

It can be said that Vietnam's electronics companies (including FDI companies) are at the lowest position in the value chain of world electronics and have limited value added. Because not only are Vietnamese companies working at matching and processing but so are FDI companies in Vietnam, and they have better technology and investment. However, FDI companies in Vietnam are joining effectively in the global value chain of electronics through mother companies such as Fujitsu, Canon, Intel, Foxconn, etc. In order to join in the global value chain, Vietnamese companies need to define the phases or products which have high value added and which they can adopt to have a high position in the market. In addition they should promote technology reform and enhance cooperation amongst companies to follow these approaches and increase competitive capacity. Forms of cooperation which should be promoted:

- Cooperation among Vietnam's electronics companies (lengthways cooperation) to strengthen the power of technology, finance and human resources.
- Cooperation between Vietnam's domestic companies and FDI companies to produce and supply parts for these FDI companies, especially the FDI companies which belong to multinational and cross-national corporations. Then Vietnamese companies will be able to join in the production systems of these corporations. The cooperation between domestic parts suppliers and matching FDI companies which are operating in Vietnam will help domestic parts producers upgrade their quality and have stable output.
- Cooperation between domestic corporations and multinational corporations (MNC) plus transnational corporations (TNC) in assembling and processing products, producing parts for these corporations (horizontal trend

Figure 4.2: Electronics value chain



cooperation) and exporting to regional and international markets. Vietnam has an advantage to do this because FDI companies are playing important role in Vietnam's electronics taking 90% of exporting turnover of this sector and 80% of domestic electronics market.

- Cooperation between domestic manufacturing and distribution companies, between domestic and foreign companies (cross cooperation). This way of cooperation is developed in regional countries and started in Vietnam with the appearance of ST Electronics group (EU). The presence of ST group in Vietnam opened up opportunities for Vietnam's electronic companies. ST Electronics has very powerful marketing, from studying the market's demand to finding the partners to produce products which they are going to supply. ST and similar groups are the bridges between not only domestic and foreign producers but also domestic producers and the market. However, their requirements are high: product contents, production capacity and the ability to fulfill the conditions of contract. It forces domestic electronic companies to be aware of the opportunities from cooperation and professional coordination in the production process. This is particularly important as most of Vietnam's electronic companies are small scale with low technology, their human resources do not usually meet the demand of technology and their financial and management ability are limited.

Global Connections will enhance the competitiveness of electronics sectors, and will leverage the advantages. Innovation in production and distribution will help companies with a stable position in the market, creating opportunities to join the value chain.

2.5. Innovation challenges for electronic companies

The process of technological innovation in Vietnam's companies has been very slow. It lags behind ASEAN for the following reasons:

- Electronics is a high technology sector with a high speed of technology change and short product's life, while most of Vietnam's electronics companies have small and medium size with limited financial capacity that hinders technological innovation of companies.
- Technology and production equipment in Vietnam's electronic companies is about 10-15 years behind that of regional and international countries; the rate of investment in new technology is also low - less than 1%. In addition, a lack of standards testing rooms, experimental and accurate measurement equipment also affects the technical innovation of companies.
- The labor force in Vietnam's electronics sector has an advantage regarding in its ability to acquire new technology, but there are too few top scientists, technology engineers and research and product development engineers who are creative enough to develop new technology and products with high value added.
- The level of technology management of electronics companies is low, their production capacity is limited, and the design capacity of domestic companies has not met the requirements of development.
- Vietnam's electronics companies lack information about the electronics technology market of the world, especially for SMEs which have limited opportunity update their technology to the standards of international electronic products.

2.6. Suggestions for enhancing production capacity and product quality of companies so they can join the global value chain

For government:

- Government should continue improving the business environment to attract more foreign investment capital for technological transfer.
- The Government should invest in strategic technology by establishing government funds for technological support based on increasing budgets for science and technology research and supply credit and guarantee for the application of new technology. These funds should be directly transferred to the key research institutes and research programs of top universities to encourage development of modern technology and generalizing research results of these technologies to promote the development of electronics.
- The Government need to help Vietnamese companies in identifying the main production phases in the global value chain to focus domestic investment on the area. appropriate to the international market.
- The Government needs to have a specific development strategy for each type of product, part, and accessory for each phase.
- The Government should improve and renew the training system for human resources from university to vocational school to ensure high quality human resources for development of electronics and reform of technology.

For company:

- With the high level of specialization in the electronics industry, Vietnam's companies should focus on their strongest product in order to be competitive and join the regional production system.
- Vietnam's companies should focus on deep investment instead of spreading investment as previously, and they should actively find partners in their region, especially in countries with a developed electronics industry.
- Companies should use a fixed part of their revenue, at least 3-5%, for technological reform.

3. Innovation in commercial banks²⁷

3.1. Development situation of Vietnam's banking sector in 2009

In 2009, a down turned economy and high inflation strongly affected the banking industry because the capital demand of society was not high and the demand for deposits was limited. Therefore, deposits in 2009 only reached 37.73%, which was much smaller than 2008 (+54%). Due to the slowdown of deposits, companies had difficulty in finding markets which led to a slowdown of payment services. Also in order to control the escalating inflation in 2009, the State Bank of Vietnam imposed a tighter monetary policy: increasing the required reserve rate to more than 10% and requiring commercial banks to buy high value State Bank bonds. Depositors were worried and wanted to protect their assets so they shifted from Vietnam Dong accounts to foreign currencies and gold, etc. These

27. This part is contributed by Dr. Duong Thu Huong.

phenomena happened simultaneously, forcing banks to apply all measures to attract deposits and maintain their liquidity. After this ‘running’, commercial banks came to 2009 in a “tired” mood, and they continued to bear high deposit interest of up to 19% until September 2009.

Dealing with the economic downturn and restrained inflation, at the beginning of 2009 the Government and State Bank of Vietnam responded quickly and effectively to cope with the economic problems resulted from the crisis. Those policies were:

- Shifting from tightening monetary policy to relaxing monetary policy; gradually reducing the basic interest from 14% in 01st September 2008 to 7% in January 2009, and keeping this rate for 10 months of 2009. However, besides that positive aspect, the banking system was also affected negatively by the interest rate supporting program (from stimulus package), which created distortion, instability and imbalance of the monetary markets, especially the foreign currency market. Due to the interest rate supporting programme companies which had foreign currencies did not need to change USD to VND to continue producing cycle. They were still supported with subsidised interest rate while they borrowed VND. These companies kept foreign currencies on their account with the amount of foreign currencies about more than 10 billion USD... Meanwhile, the banks could not buy foreign currencies and they did not have supply for import demand. To have foreign currency for imports, companies had to buy on the “black” market. The exchange rate was fluctuating badly day by day. In order to keep the exchange rate stable, the State Bank of Vietnam had to interfere by gradually increasing the foreign exchange rate.
- Government announced the stimulus packages of about 10% GDP; in which the interest support package of 4% was one billion USD. The interest support program by the State was beneficial to companies and banks. For banks, the advantages were: companies which were supported would find the way out of the recession bringing demand for capital borrowing from banks. Thus, both companies and banks could operate normally.

While the policies were changed too quickly, especially the policy of reducing basic interest and supporting interest, the banking systems had to bear the consequences from 2008 such as: capital cost increased too much from 19-20% and, until 2009, due to the reduction of basic interest, the output of banking systems was reduced (the ceiling of basic interest was only 10.5%). That had a big effect on cost compensation, reserve funds and effectiveness of banks. All profits were from the banking system's effort to develop services and other operations rather than from deposits.

In addition, banking system had to face other difficulties and challenges such as: at the end of 2009, the security and real estate markets were recovering. These two investment channels were more attractive than depositing money in bank accounts (because the ceiling interest rate 10.5% was kept too long, the interest rate of mobilizing deposit couldn't be higher than 10.5%), thus capital mobilization of VND in the banking systems met with a lot of difficulties. The banks were trying to increase the interest rate of mobilization - there was a bank which tried to raise it up to 10%, near the ceiling, but the mobilization deposits volume was not as expected. The speed of mobilizing deposits therefore decreased gradually monthly (see Table 4.2).

Table 4.2: The increasing speed of capital mobilization in banks in 2009

Month	The increasing speed in comparison with previous month (%)
5-2009	+ 4.17
6-2009	+ 3.58
7-2009	+ 1.95
8-2009	+ 0.65
9-2009	+ 1.84

Source: Vietnam Banking Association.

The monetary market in 2009 was not as up and down as in 2008 and was stable until October 2009. However, the negative effects of the economic stimulus and interest support packages left the hidden instability; the stability of monetary market is not ensured. The fluctuations of exchange rates and gold prices since September 2009 - with a peak on 11th November 2009 - is evidence of the chaotic situation of the gold and foreign exchange market and while macroeconomic policies gave loop holes for speculators to corner the market; the risk of inflation was still evident. The operation of commercial banks was not normal.

Though the economic situation affected the operation of banking systems in 2009 but the banks did not stop growing and expanding their scope of activities and scale. In terms of financial capacity and network scale, in 1994, the charter capital of the biggest commercial bank was 400 billion VND and was 300 million VND for the smallest bank. In 2009, the charter capital of the banking system increased nearly 31 times: 40% of commercial banks had charter capital above 5,000 billion VND, 18 joint stock commercial banks had charter capital from 2,000 billion to 5,000 billion VND and the rest had charter capital of 1,000 billion - and it is planned to have a minimum charter capital of 3,000

billion VND in 2010. The total assets amount of the banking system has increased rapidly: in 1994, it was 57,645 thousand of billion VND; and then, on 30th June 2009, it was 2,536,617 thousand billion VND, which is 44 times higher. The rate of deposit/GDP was 13.7% in 1992, and it increased to 105% in 2009. Deposit capital of the commercial bank system contributed to economic growth and on 30th September 2009 the total loan outstanding of the whole economy was 1,601,102 thousand of billion VND (90 billion USD). Vietnam banking system still operating stably. Eventhough some banks achieved high light success such as: Vietcombank, Vietinbank, Agribank, BIDV, ACB, MB, Sacombank,... smaller banks also overcomed the difficulties, achieved profit and increased capital.

3.2. Innovation in banking companies

In recent 20 years, Vietnam's banking system has significantly improvement of its institutional capacity, finance, operations, administration, organizational structure and distributing network, especially in diversifying the products and services of banking based on information technology. The effort of bank reformation was demonstrated in the following ways:

For products, services, most commercial banks operated in multifunction trading; the type of services were varied and increased in quality, especially the products of retail banks. Some banks developed card services, home banking, internet banking, phone banking, etc. Domestic commercial banks were trying to renovate and contribute to make a system of interbank payment which connected 54 deposit organizations with 10,000-14,000 transactions a day.

Vietnam's interbank system made remarkable progress in 2009 in comparison with the first years of Doi Moi (economic reform). Competitiveness was greatly

improved; many banks had competitiveness at the same level of regional banks. In Vietnam's banking system, big brands emerged which operated effectively: VCB, Vietinbank, BIDV, Agribank, ACB, Techcombank, MB, Sacombank, Habubank, HD bank, VIP, etc.

Diversifying products and reforming services are both important to increase the competitiveness of banks at the moment. The amount of services of the banking system had not stopped growing. Vietnam's banking system only ran three traditional services previously - capital mobilization, deposit lending and payments. Today there are about 300 services offered by Vietnam's banks, such as: ATMs, home banking, ebanking, payments and deposit cards etc. The level of increase shows the increasing competitiveness of the banking system.

However, the result of research by the Enterprise Development Foundation of Vietnam Chamber of Commerce and Industry carried out in 109 companies showed that **"Quick handling of deposits"** is considered the most important factor for companies to choose their main bank as it's very important for them to be able to grasp trading opportunities. The second most important

factor for companies is **"Stable deposit capital resource: Flexibility and willingness to lend even in the time of economic difficulty"**. **"Diversified and suitable for companies' demand services"** is considered the third most important factors for companies when choosing their main bank. See Figure 4.3. It is regrettable that the level of satisfaction of these demands from banks is only at the modest. There are few companies which are satisfied with the diversification of services of Vietnam's banks.

There is low awareness of companies of some the new products and services of banks Figure 4.4 compares the company awareness of some services and products of banks (based on the company survey from VCCI). While the short-term as well as long-term deposits are known as the main services of banks, the other services were just getting known by companies, and they haven't yet been used. The problem is not only marketing, but that these services are not well developed in Vietnam. For instance, more than 40% of companies knew about services "Liquidity management" (pooling). But the number of companies using this service could be counted on one hand. The problem of payment assurance is an important issue as mentioned in Part II of

Figure 4.3: The importance of factors for companies in choosing their main bank

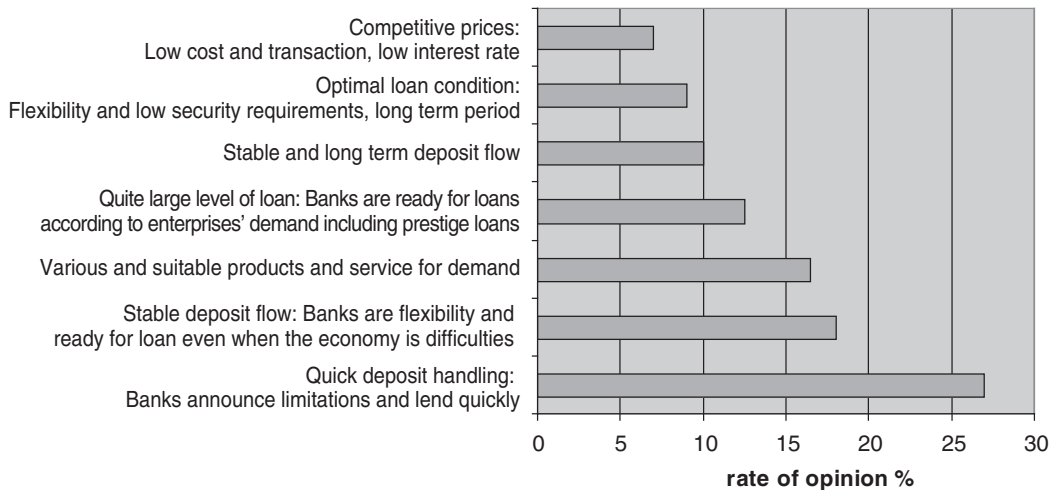
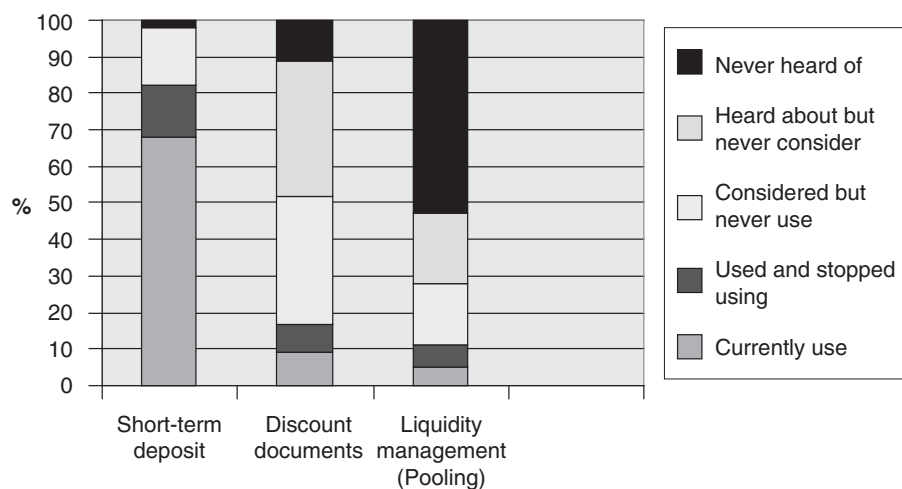


Figure 4.4: Understanding and using some Banks' services and products



this report. The issue of whether banks take advantage of this service in the future depends much on the capacity of banks in taking opportunities.

Right in the first years of Doi Moi, commercial banks operated in deposit and payment services mostly with manual technology e.g. dispersed account post and backward administrative and risk management. After 20 years of development banking technology has made outstanding progress: most banks are equipped with modern machines and applied corbanking system, therefore, the banks can develop many new products based on high technology, such as:

- Implementing online and system transactions. For instance, Vietcombank has officially announced the VCB money service - payment through the internet. This was created based on the most modern payment technology in Vietnam. The electronic payment program - VCB-MONEY - of Vietnam Foreign Trade Bank provides customers with better facilities in comparison with other payment services. The aim of this program is to

help economic and deposit organizations which have a relationship with Vietcombank to have the best payment services, save time, effort and cost and increase the effectiveness of operation and trading.

- ATM and cards related services system are applied. Card services enable a number of services to be undertaken connecting with many customers, domestic and foreign banks for payment.
- Professional skill mechanism of commercial banking system and financial firms is improved. The mechanism of risk prevention is better, which is one important factor for the deposit system to operate safely and healthily, applying the common international practice of risk management.

However, in general, in comparison with foreign banks, the gap of applying IT by Vietnam's domestic and foreign banks is very big. The information management system of domestic banks is inadequate. The introduction of a number of new services have been just in the phase of testing.

3.3. Challenges and opportunities for innovation in the commercial banks

3.3.1. Opportunities

Completing legal base

Banking was one of the first sectors to take advantage of Decision no 44/ QĐ-TTg on 21 March 2002, signed by the Prime Minister, which allowed the use of electronic receipts in electronic payment operations. Many related legal documents were released, which allowed banks to apply new and modern payment services and created opportunities for standardization and automatization in banks' operations.

Global integration and Internet boom

Global integration creates opportunities for banks to rapidly access new technologies applied to bank systems. In particular, thanks to the wide application of Internet services, banks have been developing new products/services for the convenience of companies as well as individuals, and e-banking is becoming more common in Vietnam.

3.3.2. Challenges

Despite banks' recent implementation of projects on diversification and modernization, there are still certain limitations due to the following reasons:

- The implementation of modern technology for new services mostly requires staff with good foreign languages as well as IT and professional knowledge. In spite of continued growth in IT human resources, there is still a shortage of quantity and weakness of quality of trained IT experts. The increased requirement for qualified staff causes considerable difficulties for banks,

especially state-owned commercial banks, due to shortcomings and ties of state financial mechanism.

- Customers have not changed much their habits yet. On the one hand, banks have to go ahead, actively invest in technology, develop products and services and promote marketing. On the other hand, they need to retain risk-free profit making services
- IT and telecommunication implementation requires a large amount of capital whereas charter capital of commercial banks is extremely modest.
- There remains a remarkable issue that while commercial banks encounter limitations of human resource and small market for new services, the linkage with other banks to reduce the cost has not been well established. For instance, though the cost of a central payment network is huge but banks have not yet worked together. It is obviously not easy for several banks to execute the bank card service.
- It is urgent for the Vietnamese commercial banking system to implement electronic payment services in the context of global integration. This requires an establishment of a legal framework for application of e-commerce. On 19th, November 2005 the national assembly officially approved the law of e-transaction and it was effected from 1st March 2006. However, the main barriers for banks to introduce e-payments services are that the e-commerce activities have been popular yet in the market.
- Whereas banks all over the world have considerable experience in setting a strategy for IT investment and purchasing solution's package,



domestic banks are doing this independently based on their limited knowledge and experiences. This innovation process lasts for such a long time that it's highly risky and can even become uncontrollable.

3.4. Solutions for increasing ability of innovation of banks

In the context of international economic integration of the Vietnamese banking system, IT infrastructure for banks is considered a key element in determining the competitive ability against other banks both internally and externally. Yet the IT of commercial banks remains weak and therefore constrains the competitive ability. It is hard for commercial bank to work out transparency strategy, process and solutions. Some solutions proposed by experts are as follows:

First: basically, commercial banks have to enormously increase their private capital scale to be able to invest in IT. The Government and state-owned banks should support and create conditions to help commercial banks approach international sponsored projects for: restructuring the Vietnamese financial system, increasing funding capital to encourage IT investment, modernizing banking activities and getting out of the control of law by credit institutions.

Second: with regards to IT investment, some actions are required by the banks:

- Human resources limitations: Vietnamese commercial banks should invest in their main objectives and prepare for expansion when appropriate conditions are met.
- Rapid investment in technology: Vietnamese commercial banks are at a low level or not equipped yet in comparison to foreign banks. They should invest in: 1) Payment technology

to increase the speed, accuracy, safety; 2) Technology of providing e-banking services; 3) Technology of banking management especially risk management, reserve fund management and financial management.

- Setting up standby system to ensure the safety in business activities of banks in any circumstance.

Third, in terms of software and technique technology infrastructure systems (hardware, equipments, link, telecommunication...):

- For software systems, it is advised to pay attention to capacity to apply and expand the service when establishing software programs. At present, and in the coming years, Vietnamese commercial banks should choose package importing solutions for software programs. This mode helps banks shorten the service implementation duration and enjoy advantages of solving breakdowns in the future.
- For hardware system upgrading, it is necessary to focus on volume, problem solving speed and open structure with available interface to outside.
- Thereby, it is critically important for each commercial bank to check, study innovation, apply managing process and transaction. This is all necessary to achieve progress in technological innovation. Simultaneously, it is necessary to promote investment in training and enhancing the quality of human resource to meet the modern technology development of banks. It is also important for banks to regularly check IT security systems.
- Intensifying information exchange, seeking information about banking activities domestically, regionally and

internationally and applying and practicing creativity. Overall, continually understanding the importance of internal forces which are considered the prerequisite of the future development.

4. Intellectual property rights protection in companies

4.1. Company's awareness of Intellectual Property

Intellectual property in general, and industrial property in particular, is a core part of a company's assets in which for each company the contribution of different industrial properties holds different importance. Each company should make a separate asset portfolio including both tangible and intangible assets which involves industrial property. These intellectual assets make an important contribution to the income of investors.

One of the weaknesses of Vietnamese companies is the lack of awareness of the value of their own achievements generated from their investments, or those who have awareness do not know how to protect their achievements from being encroached by others. These difficulties result from the existence of a considerably large gap between the limited awareness of the entities involving in industrial ownership relationship with the complicated content of legal regulations adjusting that relationship, in details:

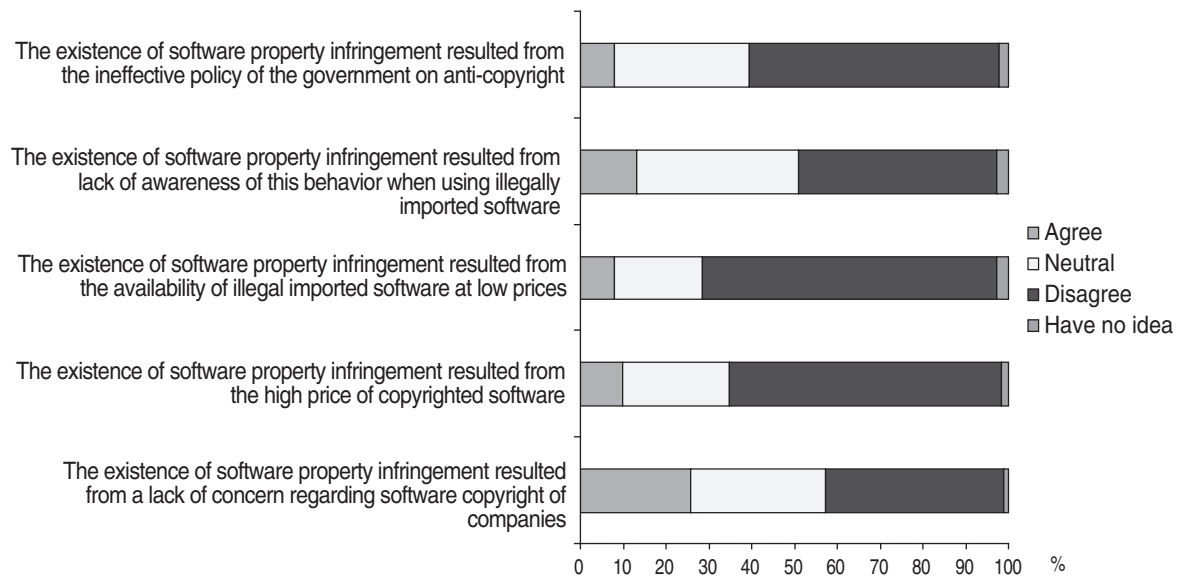
- Lacking knowledge of law of industrial property: most Vietnamese companies lack knowledge of legal procedures of existing industrial property, legal regulation adjusting a particular object of industrial property, a particular industrial property relationship and particular industrial property rights and duties;

- Lacking information about legal situations of industrial property of some particular objects: industrial property objects that are already or not protected yet, ownership of protected objects, if the usage of a certain object violates the industrial property rights of others or not;
- Lacking ability of how to execute necessary actions to protect industrial property rights: executing procedures for establishing, maintaining industrial property, suing procedures of rights violation act;
- Lacking ability to access and explore information about the legal situation of industrial property of the company's creative object.

Most Vietnamese companies have not set an industrial property strategy closely connected with their business strategy and this is hardly for staff supervising the issue of industrial property. Companies often have no long-term business strategy and this certainly leads to the lack of attention paid towards industrial property.

Despite certain improvements in company's awareness of technological property protection, they pay more attention to other issues instead of intellectual asset in general (both assets of themselves and of others). The results of a survey on opinion about software property violation across 200 companies in 2009 proves this situation. See Figure 4.5. Most companies did not agree with the opinion that the existence of software copyright infringement is due to high availability of low priced illegal imports or the price of copyrighted software is too high. Reason given by companies for the popular software copyright infringement is that companies do not really pay much attention to software copyright. Moreover, the government measure against unauthorized

Figure 4.5: Company's evaluation on using software copyright



reproduction was implemented ineffectively.

4.2. Situation of registration for industrial property and intellectual property protection of Vietnamese companies

Product innovation and technology application is always associated with registration for intellectual property right protection including industrial property rights. Since 2000, with the clear orientation for developing an economy integrated into WTO, beside the efforts of companies themselves, Vietnamese government approved particular policies and solutions to support companies developing their intellectual assets, aiming at enhancing competitive capacity and economic positions in the market economy of international integration. Shareholders begin to pay more and more attention to the value of intellectual asset and use them as a tool to raise the company's value.

The number of registrations dramatically increased especially after Vietnam's greater integration into the international economy. In 2009, the Department of Intellectual

Property (DIP) received 33,667 registration applications for establishing industrial property. DIP dealt with 51,037 applications of all types in which 24,738 were accepted. Table 4.3 shows the rate of registration application for industrial property protection increased year by year especially those from domestic companies.

Figure 4.6 shows that Vietnamese companies just registering labels accounted for 84% of registration applications. Invention application accounted for 9%; industrial style protection 6% and registration for effective solution protection only accounted for 1%. These statistics indicate that Vietnamese companies have not launched many new products/services especially new to the market. Results of the survey on the competitive capacity of Vietnamese companies shows that although the number of Vietnamese companies launching new products to the market is very high, it is perfectly possible that these companies have not registered for protection or have produced products that are not totally new. Thus, it is not effective invention nor optimal solution for a registration.

Table 4.3: Rate of registration application for industrial property had increased year by year, a comparison between domestic and foreign company 2001-2009

Year	Domestic application	Foreign application	Total application submitted to DIP	The set-off number of application with the previous year	Rate of domestic application/Total (%)	Rate of foreign application/Total (%)
2001	5,116	3,717	8,833		58	42
2002	7,311	3,712	11,023	2,190	66	34
2003	9,271	5,021	14,292	3,269	65	35
2004	11,603	5,766	17,369	3,077	67	33
2005	14,204	7,070	21,274	3,905	67	33
2006	18,002	9,301	27,303	6,029	66	34
2007	21,625	10,813	32,438	5,135	67	33
2008	22,530	10,800	33,330	892	68	32
2009	24,199	9,468	33,667	337	72	28

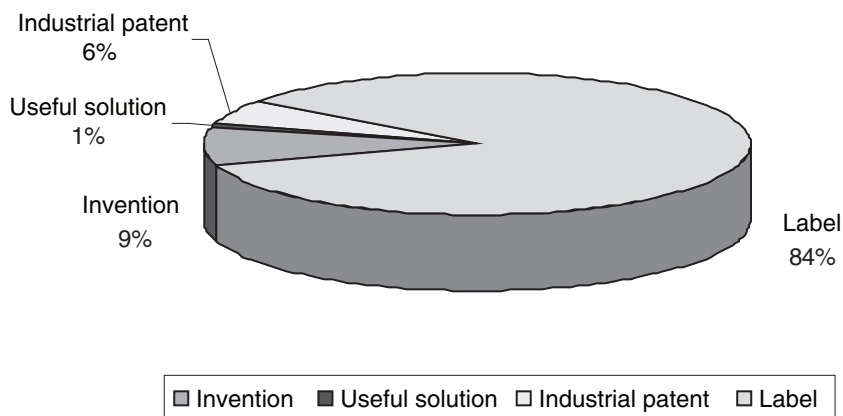
Source: Vietnam's Department of Intellectual Property.

It is noticeable that the ratio of invention accounts just for 9% of total registered industrial property. Most of the applications are of foreign companies (91% total registration applications for invention certificates).

4.3. Solutions for enhancing the capacity of Intellectual Property Rights innovation and protection in companies

Intellectual assets support is the first program in Vietnam aimed at assisting

Figure 4.6. Rate of registration application types for industrial property protection in 2009



Source: Vietnam's Department of Intellectual Property

companies with their intellectual property. This program is funded by state budget in accordance with the principle of using the revenue from intellectual property activities to finance it. The program was approved 68/2005/QĐ-TTg, on Decision 4th April 2005 by the Prime Minister of Vietnam. It has been actively executed by the Ministry of Technology and Science along with ministries, departments and localities. The program aims at enhancing public and company awareness of intellectual property and contributes to strengthening the competitive capacity of Vietnamese companies. In order to fulfill that target, the program has three main contents: 1) Supporting companies and organizations with intellectual property activities; 2) Supporting, establishing, exploring, protecting and developing intellectual assets of companies domestically and internationally; 3) Supporting companies who are exploring information about intellectual property. A noticeable problem is supporting setting, controlling and developing geographic instructions for specific locations. The program is executed from 2005 to 2010 with the fund from state budget and companies' contributions. The Ministry of Technology and Science is responsible for liaising with related ministries, people's committees of provinces and cities directly under the central government, Vietnam Chamber of Commerce and Industry and professional associations, in order to execute the program. The National Office of Intellectual Property of Vietnam is the permanent agency.

In order to uphold the effectiveness of the program and strengthen registration activity and intellectual property protection as well as to encourage innovation, it is necessary to create more ideas and strong measures. Some proposed solutions are as follow:

- For state-owned organizations and

company supporting organizations, it is firstly essential to advocate, popularize, and raise awareness of the importance of executing industrial property rights for small and average companies. Awareness is a pre-requisite for actions of industrial property protection of companies. Companies have no knowledge of the additional value to themselves without awareness of the importance and value of industrial property rights.

- It is necessary to: promote the law of intellectual property, and update new international regulations and rules, to support companies in abiding the law; strengthen the ability of organizations to manage and execute intellectual property and develop policy strategy and programs to meet demands, especially for small and average companies and those whose activities rely on technology; improve the ability of service suppliers and company associations in order to provide small and average companies with services related to intellectual property.
- For companies, right from the stage of studying, designing and establishing objects of intellectual property, it is essential to consider technological measures protecting those objects before registering. In addition, companies should actively manage and explore intellectual property rights and understand that the acceptance of high standards of trade related intellectual property convention (TRIPS) by WTO is an indispensable rule of international economic integration. It is likely that companies will encounter difficulties, even suffer from costly negative impacts, yet if they can manage to overcome these difficulties and constraints, they will be enormously benefited in the long run.

PART V

FORECAST, CONCLUSION AND RECOMMENDATIONS

1. Forecast for world economy and Vietnamese economy in 2010

In 2010, Vietnam's market price is expected to fluctuate and be closely associated with the movements in the price of raw materials and fuel in the world market. Besides, the government and companies will gain more experience and develop economic potential through executing solutions for stabilizing the market price, etc.

World economy in 2010

In their latest report announced on the 8th July 2009, the International Monetary Fund (IMF) anticipated that world economic growth in 2009 would be 1.4% and that the world economy would recover in 2010 with growth rate reaching 2.5%. However, they predicted that the recovery would not be steady nor substantial, especially in the advanced economies. The financial environment would continue to be improved but it would take time to regain as normal. Thus, it is reasonable to say that the world economic recession reached the bottom and started to recover. However, the great efforts of many nations to promote growth, limiting the crisis's impacts (loosening the monetary policy, assisting companies, raising public expenses, etc) will lead to high inflation in many countries worldwide.

In the latest report announced in November 2009, the Organization of Economic Cooperation and Development (OECD) forecasted the global economy in 2010 might grow by 3.4%, with economies of the 30 member countries of the OECD growing at 1.9%, America's economy growing at 2.5% (instead of 0.9% as estimated in June 2009); Europe's common currency areas growing at 0.9% (instead of the estimate of a recession); Japan's economy growing at 1.8% (not 0.7% as estimated before) and China's economy growing at 10.2% in 2010, etc).

Vietnamese economy in 2010

In the report on Vietnam's economy on the 3rd December 2009, an American bank, Goldman Sachs, stated that the recovery of Vietnam's economy from Quarter II to present mainly resulted from domestic demands. Goldman Sachs forecasted Vietnam's economy to grow at 5.1% in 2009 and 8.2% in 2010. Although the economy is to recover from the global economic crisis, high inflation will possibly occur again.

Prices of several raw materials and fuel (oil and gas, fertilizer, steel billet, etc) in the international market fluctuate considerably and depend on the recovering ability of the world economy and the resisting ability of the speculating funds. In general, the prices of those goods are expected to slightly increase in 2010. Thus, these prices

in the Vietnamese market will fluctuate accordingly in the same tendency.

It is essential for Vietnam's government to actively adjust the prices of some goods in accordance with the international economic integration (electricity, water, coal); the government's solutions for "stimulus" will be deeply and widely effective and contribute to boost the goods prices.

In Vietnam, the risk of high inflation in 2010 may occur due to several elements as follows:

- **Firstly**, budget overspending is great. In 2009, the amount of budget overspend was announced at 6.9% GDP while that of 2008 was just above 5% and inflation climbed to 19.89%. Thus, inflation had not occurred in 2009 because consumers were saving money to avoid risks from the economic recession and this led to low consumer demands. Up to 2010, as the economy recovered from recession, consumer demands dramatically increased and put pressure on inflation.
- **Secondly**, significantly credit growth. Credit growth in 2009 reached 37.73% (the planned number set by the state bank for the whole year was only 25%, then adjusted to 30%), yet the rate of capital allocation in banks just increased by 26%. This will put considerable pressure on prices in 2010.
- **Thirdly**, trade deficit tends to increase again due to reduced exports. The resolution of the national assembly for the 2010 socio-economic development plan set the target of a growth rate at 6.5%. Thus, it is advisable to boost the trade deficit.

2. Recommended solutions for market and price stabilization

In order to stabilize the market towards positiveness and sustainability, it is essential for the government to timely solve the following issues:

- Firstly, stabilizing the macro economic, balancing budget revenues and expenditures, monetary, credits, international payment balance, inflation restriction, etc are the basic condition to boost investment and achieve the growth target. In particular, while executing stimulus solutions, anti-economic recession, government stills take care the reoccur of high inflation.
- It is not advisable to set high growth rates which may lead to enormous increases in investment, and limited effectiveness of capital spending (high ICOR coefficient - Incremental Capital Output Rate). This will reduce the economy's competitiveness and lead to unsustainable development.
- It is necessary to implement more strict policies of controlling prices in order to bring greater economic effectiveness for societ.
- An economic information system is required to give companies and citizens the right information for their business and to avoid the supply-demand imbalance in the market.
- Operating, reserving and managing the goods circulation network (especially for rice, cement, steel, etc). More flexible in resisting speculation and spreading rumors to unreasonably raise the price. On the other hand, the government is facilitated to strongly execute the policy of regulating the

market price via managing this retail system.

According to the above analysis, if society implement effectively the planned solutions conducted by the government, it is possible to anticipate the CPI of Vietnam in Dec 2010 will reach 108-109% in comparison to that in Dec 2009.

3. Recommendations to government

- a) Apart from issuing macroeconomic stabilization policies, Vietnamese companies also expect Government to promote the investment demand stimulating policy and enhance the timely supply of information about economic issue and policies, as well as methods promulgating to reduce the de-stabilization of markets.
- b) Promoting the improvement of administrative procedures continues to be one of the priorities of Government to improve the trading environment and facilitate the implementation of deposit policies. Particularly for the SMEs, which have few resources (both financial and human resources), improvement of administrative procedure as well as facilitation for them to approach the resources, which contain financial resource, will be an important point for their recovery in the post-crisis period.
- c) Government should have policies to promote Vietnamese companies in terms of technology reform, product renewal and service improvement. It can be seen that the policies of supporting creation and renovation in companies have not been useful and they cannot raise the productivity of companies in the context of current technology. The level of investment in research and development in the companies, also in state enterprises, is too low, even decreased in 2008 (in comparison with 2007). That is an alarming message about the effectiveness of creation and renovation supporting policies in companies. In the long run, government should create an environment in which the renovation of companies is in accordance with the operation of domestic research institutes and universities. Supporting policies should be implemented comprehensively in terms of information, market, finance, human resource, etc.
- d) Government should promote investment in human resource training with enhancing vocational training coupled with having a human resource development strategy, in order to have the ability to acquire and implement technology in advanced industries.
- e) The weak “spreading” ability of FDI for Vietnam’s companies in technology reform is a big challenge for Vietnam’s economic sectors and domestic companies. Government should have timely policies to promote advanced technology transition through FDI companies, and limit the “fake” losses in some FDI companies as well as control the low standard of technology flow to Vietnam from these companies.
- f) Supporting industry development is an urgent need. Without supporting industry, Vietnam will find it hard to have average industry in 2020. The shortage of supporting industry is also one of the reasons for FDI companies to move to other countries.
- g) Hastening the speed of amendments to the legal system to ensure and

facilitate the development of electronic trading; encouraging electronic trading transactions, and strongly promoting payments through the banking system, so reducing cash reserves and preventing inflation.

4. Some suggestions for companies

- a) Vietnamese companies cannot raise productivity if they do not apply R&D, technological reform, production line, and market diversification. This is the huge challenge for companies, but is also the feasible way to ensure survival after crisis and increase competitiveness. This is also a learning and creating process which is very necessary for each company to develop. The growth period will return when demand is stimulated in the market with the new products and increased purchasing power.
- b) Companies need to pay attention to enhancement of innovation capacity to supply the products with better value, or companies in products renewing should have better support from the State. As usual, in the first phase of reform, not all the companies can raise revenue from these products. Customers need time to get familiar with the new products and brands, and companies also need to be creative in marketing and sales.
- c) Enhancing the cooperation amongst domestic companies, research and development organizations, and universities to effectively exploit the inventions and creations of researchers inside the country.
- d) Companies have to prepare business development strategy based on close cooperation with companies in the value and distribution chains. And they have to enhance the cooperation with other sectors to strengthen the above chains.
- e) Concerning intellectual property rights protection, companies are required to respect the intellectual property rights of other companies. Being aware of this issue, companies will take the fastest route to development in the current era of extraordinarily rapid development of technology and science.

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1. Overview on business environment of Vietnam in 2009

Table 1.1: Total of companies register for establishing and total operating company
Unit: company

	2000	2002	2004	2007	2008	2009
Number of registered companies	60,127	101,507	166,508	307,008	379,311	463,842
Number of operating companies	42,288	62,908	91,756	155,771	205,732	
1, State owned enterprise	5,759	5,363	4,597	3,494	3,328	
+ Central	2,067	2,052	1,968	1,719	1,664	
+ Local	3,692	3,311	2,629	1,775	1,664	
2, Non-State company	35,004	55,237	84,003	147,316	196,779	
+ Collective	3,237	4,104	5,349	6,689	13,532	
+ Private	20,548	24,794	29,980	40,468	46,530	
+ Collective name	4	24	21	53	67	
+ Limited Co,	10,458	23,485	40,918	77,647	103,092	
+ Joint stock had state capital	305	558	815	1,597	1,814	
+ Joint stock non state capital	452	2,272	6,920	20,862	31,744	
3, Foreign investment company	1,525	2,308	3,156	4,961	5,625	
+ 100 % foreign capital	854	1,561	2,335	4,018	4,611	
+ Joint venture	671	747	821	943	1,014	

Source: General Statistics Office.

Note:

- The Data have been extracted according to result of the company survey by General Statistics Office that carried out from 2001 to 2008. Number of companies is as of 31st December annually.
- The number of registering company does not include non-agricultural sector and foreign.

Table 1.2: Economic stimulus package structure²⁸

Unit: VND billion

No.	Item	Amount
	Total	143,025
1	Supporting interest credit loans	17,000
2	Suspending recover basic construction investment capital	3,400
3	Spending on account state budget to complete some urgent projects	26,700
4	Advance capital to support fast and stable poor decrease program for 61 poor districts	1,525
5	Other advance	9,000
6	Transferring plan investment capital from 2008 to 2009	30,200
7	Issuing more Government bonds	20,000
8	Carrying out tax reduction policy	28,000
9	Other expenses to stimulate demand aiming at stopping economic recession, ensuring social security	7,200

2. Firms' activities and technological innovation indicator within selected sectors

2.1. Number of companies (as of 31st December)

Table 2.1: Number of companies

Unit: Company

Code	Sector	Year	
		2007	2008
1	Food processing	4,986	5,700
2	Garment	3,722	4,836
3	Manufacture of motorcycle, motorbike	481	534
4	Electronics	304	417
5	Banking sector	1,806	2,003

28. Source: <http://www.sbv.gov.vn>

Table 2.2: Number of profit loss within firms

Unit: company

Code	Sector	Year	
		2007	2008
1	Food processing	1,390	1,704
2	Garment	1,497	2,641
3	Manufacture of motorcycle, motorbike	128	194
4	Electronics	126	250
5	Banking sector	101	172

Table 2.3: Rate of profit loss within firms

unit: %

Code	Sector	Year	
		2007	2008
1	Food processing	28	30
2	Garment	40	55
3	Manufacture of motorcycle, motorbike	27	36
4	Electronics	41	60
5	Banking sector	6	9

2.2. Innovation indicators**Table 2.4: Productivity**

Unit: VND million

Code	Sector	Year	
		2007	2008
1	Food processing	566.39	612.72
2	Garment	178.18	178.48
3	Manufacture of motorcycle, motorbike	506.06	531.12
4	Electronics	452.58	404.46
5	Banking sector	410.72	500.75

Table 2.5: Fixed assets to total assets

Unit: times

Code	Sector	Year	
		2007	2008
1	Food processing	0.4	0.37
2	Garment	0.33	0.33
3	Manufacture of motorcycle, motorbike	0.36	0.34
4	Electronics	0.28	0.28
5	Banking sector	0.06	0.07

Table 2.6: Capital productivity

Unit: times

Code	Sector	Year	
		2007	2008
1	Food processing	8.18	8.7
2	Garment	9.12	6.42
3	Manufacture of motorcycle, motorbike	7.5	7.33
4	Electronics	17.51	7.21
5	Banking sector	15.87	15.64

Table 2.7: Ratio of fixed asset per employee (Asset/employee)

Unit: VND million

Code	Sector	Year	
		2007	2008
1	Food processing	85.79	88.02
2	Garment	55.72	57.81
3	Manufacture of motorcycle, motorbike	160.67	187.95
4	Electronics	116.17	117.46
5	Banking sector	33	40.36

Table 2.8: Investment in fixed assets to total investment capital

Unit: times

Code	Sector	Year	
		2007	2008
1	Food processing	n/a	0.47
2	Garment	n/a	0.65
3	Manufacture of motorcycle, motorbike	n/a	0.64
4	Electronics	n/a	0.81
5	Banking sector	n/a	0.38

Table 2.9: Ratio of scientific staff to total labor

Unit: %

Code	Sector	Year	
		2007	2008
1	Food processing	38	10
2	Garment	14	42
3	Manufacture of motorcycle, motorbike	26	6
4	Electronics	22	10
5	Banking sector	82	16

Table 2.10: (R&D and technological change) expenditure to total investment capital

Unit: times

Code	Sector	Year	
		2007	2008
1	Food processing	n/a	0.14
2	Garment	n/a	0.20
3	Manufacture of motorcycle, motorbike	n/a	0.31
4	Electronics	n/a	0.48
5	Banking sector	n/a	0.09

Table 2.11: Number of firms engaged R&D

Unit: company

Code	Sector	Year	
		2007	2008
1	Food processing	94	20
2	Garment	39	11
3	Manufacture of motorcycle, motorbike	14	2
4	Electronics	6	5
5	Banking sector	20	4

Table 2.12: Number of firms involving new technology

Unit: company

Code	Sector	Year	
		2007	2008
1	Food processing	94	20
2	Garment	39	11
3	Manufacture of motorcycle, motorbike	14	2
4	Electronics	6	5
5	Banking sector	20	4

Table 2.13: Number of scientific research subject and program

Unit: scientific research subject and program

Code	Sector	Year	
		2007	2008
1	Food processing	481	50
2	Garment	521	109
3	Manufacture of motorcycle, motorbike	175	2
4	Electronics	84	4
5	Banking sector	50	43

Table 2.14: Number of initiative technical method

Unit: initiative technical method

Code	Sector	Year	
		2007	2008
1	Food processing	4,211	173
2	Garment	1,845	342
3	Manufacture of motorcycle, motorbike	258	447
4	Electronics	166	28
5	Banking sector	290	7

Table 2.15: Number of firms with internet access

Unit: company

Code	Sector	Year	
		2007	2008
1	Food processing	1,835	2,010
2	Garment	2,199	2,294
3	Manufacture of motorcycle, motorbike	359	383
4	Electronics	216	218
5	Banking sector	619	955

Table 2.16: Number of firms using their own website

Unit: company

Code	Sector	Year	
		2007	2008
1	Food processing	357	439
2	Garment	241	315
3	Manufacture of motorcycle, motorbike	54	83
4	Electronics	54	78
5	Banking sector	114	208

Table 2.17: Number of firms regarding e-commerce

Unit: company

Code	Sector	Year	
		2007	2008
1	Food processing	68	92
2	Garment	65	69
3	Manufacture of motorcycle, motorbike	12	14
4	Electronics	7	3
5	Banking sector	14	26

Table 2.18: Innovation indicators (for FDI firms)

No.	Indicator	Year	
		2007	2008
1	Number of companies	4,961	5,642
2	Number of profit loss within firms	2,313	2,899
3	Productivity (VND million)	677	783
4	Fixed assets to total assets (time)	0.39	0.37
5	Capital productivity (time)	13.29	15.36
6	Ratio of fixed assets per employee (VND million)	240	273
7	Investment in fixed assets to total investment capital (time)	0.73	0.72
8	Ratio of scientific staff to total labor (%)	26	15
9	(R&D and technological change) expenditure to total investment capital (time)	n/a	0,54
10	Number of firms engaged R&D	137	20
11	Number of firms involving new technology	61	24
12	Number of scientific research subject and program	1,627	41
13	Number of initiative technical method	4,264	547
14	Number of firms with internet access	4,656	5,392
15	Number of firms using their own website	979	1,475
16	Number of firms regarding e-commerce	144	196

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