The Transformation of the Private Manufacturing Sector in Vietnam in the 1990s

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ABSTRACT:

The private manufacturing sector has been called upon to play a key role in the transformation and development of the Vietnamese economy since the launching of market oriented reforms a decade ago. Drawing on a comprehensive survey in 1991 of some 1,000 non-state manufacturing enterprises in Vietnam, a repeat survey in 1997 of some 400 of the enterprises surveyed in 1991 and a parallel survey in 1997 of some 500 not previously surveyed enterprises the present study provides an in-depth analysis of the development and transformation of the private manufacturing sector in Vietnam in the 1990s. It is found that this sector has seen considerable consolidation in terms of size, capital intensity and labour productivity in the 1990s and that this process has been accompanied by a sharp reduction in the regional differences in this regard. This transformation has taken place through two parallel processes. Firstly, through the appearance of new enterprises that are fundamentally different from existing enterprises with regard to size, capital intensity and labour productivity and, secondly, through a growth and transformation of the existing enterprises. These two processes are analysed in detailed and a main part of the study is devoted to an analysis of the development of the cohort of enterprises between 1991 and 1997.

Keywords: small scale industries, private sector development, Vietnam

JEL Classification: L1, L6, J3

Preface

The origin of the present study goes back to 1991 when the first major survey ever of the non-state manufacturing sector in Vietnam was undertaken as a collaborative effort between the Asian Regional Team for Employment Promotion of the International Labour Organisation (ILO-ARTEP), Institute of Labour Studies and Social Affairs (ILSSA) of the Ministry of Labour, Invalids and Social Affairs in Vietnam and the Department of International Economics and Geography at Stockholm School of Economics, with generous funding from the Swedish International Development Authority (SIDA).[1]

Apart from providing a wealth of information on this sector, the survey also provided a benchmark against which subsequent development could be judged. In 1996, on the initiative of SIDA, it was decided to repeat the survey undertaken in 1991. The new survey was designed and undertaken jointly by a team at ILSSA led by Dr. Do Minh Cuong and by Dr. Per Ronnås at Stockholm School of Economics. The new survey had two components: (i) a repeat survey of the same enterprises that had been covered by the 1991 survey, and; (ii) a survey of a random sample of not previously surveyed enterprises in the same locations as in 1991, and using the same methodology and questionnaire.

The present study is the second in a series, presenting the results from this survey.[2] Its focus is on the development and transformation of the non-state manufacturing sector in the 1990s.

A result of collaborative work, the present study incorporates contributions from a wide range of people in varying, but equally vital capacities. The research team at the Institute of Labour Studies and Social Affairs in Hanoi had the main responsibility for the implementation of the survey. The high quality of the survey data is a testimony of the professionalism and dedication which characterised all aspects of their difficult work. The many discussions held with individual members of this team in the course of the preparation for the survey and the editing of the data greatly contributed to our understanding of the nature of the private manufacturing sector in Vietnam. Equally important was the generous financial support provided by

[1] The survey results were published in Per Ronnås, *Employment Generation through Private Entrepreneurship in Vietnam* (New Delhi: ILO-ARTEP/SIDA, 1992), subsequently also published in Vietnamese under the title *Doanh Nghiep Nho o Viet Nam* (Hanoi: Nha Xuat Ban Khoa Hoc Va Ky Thuat, 1993).

[2] For a previously published study focussing on the results of the survey of not previously surveyed enterprises, see Maud Hemlin, Bhargavi Ramamurthy and Per Ronnås, *The Anatomy and Dynamics of Small Scale Private Manufacturing in Vietnam*, Working Papers Series in Economics and Finance No. 236 (Stockholm: Stockholm School of Economics, 1998).

the Swedish International Development Authority (SIDA) and the enthusiastic support of many of its staff members.

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Introduction

By any yardstick, the 1990s has been a dramatic decade for the private manufacturing sector in Vietnam. As Vietnam took decisive steps towards a market economy in the late 1980s through the launching of *Doi Moi*, the wind of change, enormous expectations were put on the infant private non-farm sector to generate growth, jobs and income and to help bring the country out of the economic doldrums. The non-state manufacturing sector had a particularly important role to play as development of the small industrial sector was *sine qua non* for the modernisation and development of the economy and as the inefficient state industries were ill-equipped to assume the role of growth engines.[3]

At the face of it, the performance of the non-state manufacturing sector, as well as of the non-state sector in general, in the 1990s has been mixed. In terms of sheer numbers, the development of the non-state sector outside agriculture has been quite impressive.[4] The number of household enterprises has more than doubled from 840,000 in 1990 to 2.2 million in 1996, while the number of private enterprises increased from a very small base to 20,000. In the same period there has been a net establishment of some 8,300 limited liability companies and 190 joint stock companies.[5] However, far from all of these enterprises are engaged in manufacturing. While official statistics do not permit any exact breakdown, it would appear that roughly a third of the household enterprises, that is some 600,000, were engaged in manufacturing in 1995.[6] In addition there were between 10,000 and 15,000 other forms of non-state enterprises engaged in manufacturing.[7]

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[3] The term 'non-state' is used instead of 'private', as 'private' refers to a specific ownership type (*Tu nhan).*

[4] The terminology in English of the different ownership forms of non-state enterprises is not consistent and often confusing. In this study the following types of non-state enterprises are distinguished:

- Household enterprises (*Ho gia dinh*).
- Private enterprises (*Tu nhan*).
- Partnership (*Hop doanh* previously *lien doanh (to hop)*).
- Collective *(Tap the* also *Hop tac xa*, which means co-operative).
- Limited liability company (*Cong ty trach nhiem huu han*).
- Share holding companies or joint stock companies (*Cong ty co phan*).

Limited liability companies and share holding companies are often combined into one category, while the distinction between collectives (*tap te*) and co-operatives (*hop tac xa*) is far from clear.

[5] Raymond Mallon. 1997. *Mapping the Playing Field: Options for reducing Private Sector Disincentives in Vietnam.* Mimeo.

[6] *Nien Giam Yhong Ke 1995* (Statistical Yearbook 1995). (Hanoi Statistical Publishing House, 1996). Pp. 201-202; *Nien Giam Yhong Ke 1996* (Statistical Yearbook 1996). (Hanoi Statistical Publishing House, 1997). P. 111.

[7] *Ibid.* Excluding the household enterprises, there were in all 9,332 manufacturing enterprises with less than 100 workers in 1995.

The total output produced by the non-state manufacturing sector increased by 65 per cent between 1990 and 1995.[8] However, the growth was by no means uniform. The output share of the collective manufacturing enterprises in the total non-state production fell from 28 to 3 per cent, as the output in this sector declined from 1,279 billion dong in 1990 to 216 billion dong in 1995.[9] The output of household enterprises increased from 3,120 billion to 5,504 billion dong in the same period, largely through a proliferation of the number of enterprises. The relatively new ownership forms, such as private and share holding companies, registered by far the fastest growth, as their combined output increased from virtually scratch (137 billion dong) in 1990 to 1,783 billion dong in 1995. However, it deserves to be noted that despite the rapid growth of these 'new' types of enterprises, household enterprises still dominated the non-state manufacturing sector in the mid-1990s, accounting for close to three quarters of the total output.

In the early 1990s there were expectations that the non-state manufacturing sector would play a main role in employment generations in the years to come.[10] By and large, these expectations have not been fulfilled. Between 1990 and 1996 the total labour force in manufacturing increased by a mere 11 per cent, from 3,392 thousand to 3,760 thousand.[11] This increase was exclusively due to employment growth in the non-state sector, as the state enterprises actually reduced their labour force somewhat in this period, and by the latter date the non-state sector accounted for almost 80 per cent of the manufacturing employment. Still, actual development has fallen short of any hope that the growth of the non-state manufacturing sector would have a decisive impact on the rather dismal overall employment situation in Vietnam.

However, a closer examination of the development of the non-state manufacturing sector in the 1990s reveals a much more dynamic, not to say dramatic, development than aggregate statistics suggest. In 1990 the non-state manufacturing sector in Vietnam was still in its infancy, just as the market economy in general. It was dominated by inefficient and declining collective enterprises on the one hand and a multitude of small household enterprises, plagued by lack of capital and low

[8] From 4,535.3 billion dong to 7,502.5 billion dong at 1989 prices. *Nien Giam Yhong Ke 1996* (Statistical Yearbook 1996). (Hanoi Statistical Publishing House, 1997). Pp. 115-127.
[9] At 1989 prices.
[10] See for example Nguyen Tuong Lai and Nguyen Thanh Bang. 1991. 'A Development Policy for Human resources within the Socio-Economic Strategy of Vietnam up to the Year 2000' in *Socio-Economic Development in Vietnam: The Agenda for the 1990s*, edited by Per Ronnås and Örjan Sjöberg (Stockholm, SIDA). Pp. 85-92.
[11] *Nien Giam Thong Ke 1995* (Statistical Yearbook 1995). (Hanoi Statistical Publishing House, 1996). P. 29; *Nien Giam Thong Ke 1996* (Statistical Yearbook 1996). (Hanoi: Statistical Publishing House, 1997). P. 31; *Truc Trang Lao Dong – Viec Lam o Viet Nam 1996* (Status of Labour – Employment in Vietnam). 1997. (Hanoi Statistical Publishing House, 1997). P. 405.

productivity, on the other hand. Other forms of non-state enterprises, such as private and partnership enterprises were recent and still not very numerous.

Apart from its small size and low capital intensity, the most striking characteristic of the non-state manufacturing sector in 1990 was its extreme heterogeneity. Average value added and labour productivity in the firms in Hanoi was little more than a third of that among the enterprises in Ho Chi Minh City, while most rural enterprises on the plain of the Red River barely provided a subsistence income to their owner and contrasted sharply to their much better endowed counterparts in the Mekong Delta.[12] This heterogeneity was symptomatic of the pronounced market fragmentation which still characterised Vietnam at this time. The vast majority of urban as well as rural enterprises acted only on the local market, and the regional differences in their characteristics reflected more general regional differences in the level of economic development.

The Transformation of the Non-State Manufacturing Sector in the 1990s

Three comprehensive surveys of the non-state manufacturing sector, undertaken together with the Institute of Labour Studies and Social Affairs of the Ministry of Labour, Invalids and Social Affairs in Hanoi in 1991 and 1997 provide unique data sets for analysing the changes that have taken place in the non-state manufacturing sector in Vietnam in the 1990s. The surveys consisted of (i) a survey of some 1,000 enterprises in Hanoi, Ho Chi Minh City and in the provinces of Ha Son Binh, Vinh Phu, Quang Ninh, Long An and Cuu Long in 1991, (ii) a repeat survey in 1997 of some 371 of the enterprises surveyed in 1991 in Hanoi, Ho Chi Minh City, Haiphong, Long An and Ha Tay (previously Ha Son Binh), and (iii) a survey in 1997 of some 500 not previously surveyed enterprises in Hanoi, Ho Chi Minh City, Haiphong, Long An and Ta Tay.[13] As the sampling and stratification procedures as well as the questionnaires were virtually identical in survey (i) and (iii), the data obtained from these two surveys make it possible to analyse developments in the sector as a whole between 1991 and 1997, while data from survey (i) and (ii) can be

[12] For a detailed analysis of the non-state manufacturing sector in 1990, see Per Ronnås. 1992. *Employment Generation Through Private Entrepreneurship in Vietnam.* (New Delhi, ILO-ARTEP and SIDA).
[13] For details on the survey designs, see Haud Hemlin, Bhargavi Ramamurthy and Per Ronnås. 1998. *The Anatomy and Dynamics of Small Scale Private Manufacturing in Vietnam*. Working Papers Series in Economics and Finance No. 236 (Stockholm, Stockholm School of Economics).

used to examine the development of a randomly selected cohort of enterprises over time.[14]

A comparison of the results of survey (i) and (iii), above, reveals that the private manufacturing enterprises registered a remarkable growth in size, capital intensity and labour productivity in the 1990s, while the increase in the work force was generally rather more modest. Thus, the average value added produced increased almost threefold among the enterprises in Hanoi and by almost as much in Ho Chi Minh City (Table 1). In Ha Tay, the only province for which comparable data are available, the value added produced per enterprise increased more than fourfold. The increase in production was accompanied by an equally impressive growth of the capital stock. The average asset base increased by more than three times among the enterprises in Hanoi and by an almost incredible 13 times in Ha Tai. Among the enterprises in Ho Chi Minh City the increase in assets was somewhat more modest, while among the enterprises in Haiphong the asset base actually declined somewhat.[15]

Table 1
Main economic characteristics of non-state manufacturing enterprises in 1990 and in 1996, by location.

	Hanoi		Ho Chi Minh City		Haiphong		Ha Tay	
	1990	1996	1990	1996	1990	1996	1990	1996
Total income	238.6	798.4	758.4	1,846.5	335.9	334.8	76.9	316.6
Value added	78.7	225.2	217.9	554.9	110.4	112.5	35.8	124.2
Assets	244.1	749.9	422.4	979.5	494.8	468.8	25.0	330.7
Labour force	12.4	17.2	13.3	23.6	17.3	12.4	9.5	13.1
Assets/worker	17,595	42,602	35,382	48,630	26,165	33,586	2,348	18,022
Value added / worker	6,968	11,664	16,274	23,368	6,443	8,330	3,946	7,814
Average wage	10,800	20,300	23,600	26,200	13,000	17,200	8,300	15,400

Remarks: Total income, value added and assets are expressed in million dong at 1996 prices and refer to the calendar year 1996. To recalculate 1990 figures to 1996 year prices, figures referring to monetary flows (income and value added) were inflated 3.85 times, while figures referring to stock at end year (assets) were inflated 2.79 times. Average wage refers to average daily wage during the month preceding the survey (i.e. in 1991 and 1997), at 1997 prices. The figures on wages for 1991 were inflated by a factor of 2.1 to bring them up to 1997 year's prices. Labour force includes non-paid labour. Assets/ worker and value added per worker are in thousand dongs at 1996 prices. All figures except those for wages refer to 5 per cent trimmed means. Average wages are based on untrimmed means. The official retail price index, published in the Statistical Yearbook 1996 (page 200) was used to calculate the price inflators.

[14] A stratified random sampling technique was used in all the areas covered by the survey. The sample was stratified by ownership forms, to ensure the inclusion of a sufficient number of private, partnership and co-operative enterprises in the sample. Generalisations of the survey results should obviously be done with some caution, as the survey did not cover the entire country. However, the inclusion of the three main cities suggests that at least as far as the urban subset is concerned, the surveys are likely to have covered main trends in development.

[15] Haiphong stands out as the 'odd man out'. It would appear that restructuring in this city has largely taken the form of replacement of large, inefficient firms by smaller, but more efficient and productive enterprises.

The enterprises in 1996 were not only larger than in 1990, but also displayed somewhat different characteristics.[16] The capital/labour ratio, measured as assets per worker, among the enterprises in Hanoi was almost twice as high in 1996 as in 1990. In the other two cities covered by the survey the increase was smaller. In Ha Tay it was a staggering 7.7 times higher in 1996 than in 1990, suggesting that a fundamental restructuring of the enterprises in this province must have taken place between 1990 and 1996. As might be expected, labour productivity was generally much higher in 1996 than in 1990. This is a logical development considering the sharp increase in capital intensity. The increase in labour productivity was also translated into an increase in wages. The average wage almost doubled during the period in Hanoi and Ha Tay, but increased by a much more modest 11 per cent in Ho Chi Minh City.

As both the survey in 1991 and the one in 1997 were stratified by ownership form of the enterprises in the same manner, the large differences in size and operational characteristics between the enterprises in the two surveys cannot be explained by changes in the ownership structure of the non-state enterprises. A comparison by ownership types between the two surveys in the urban areas shows that the average size of both household and private enterprises increased over the period, although the increase was much stronger for the private enterprises than for the household enterprises. Among the urban private enterprises the average value added was 428 million dong in 1996 as against 177 million dong in 1990, for the urban household enterprises the same values were 69 and 52 million dong, respectively.[17] The average asset base more than doubled among the urban private enterprises, from 466 million dong to 1,092 million dong, while it increased by slightly less than 50 per cent -- from 106 to 152 million dong -- among the urban household enterprises. Similarly, the average labour force in the urban private enterprises increased from 12.3 to 22.5, mainly through an increase in the number of wage workers. In the urban household enterprises the increase in the average labour force was much more modest; from 4.6 to 5.7.

To a certain extent the increase in assets was made possible through an increase in debts. In 1990 few private and almost no household enterprises had any debts. By 1996 the average level of indebtedness, measured as debts per unit of asset, had increased from 3.2 to 5.4 per cent among the private enterprises and from 0.2 to 0.7 per cent for the household enterprises. Despite this increase, it is clear that the growth in assets had mainly taken the form of an increase in own capital. Both capital intensity, measured as assets per worker, and labour productivity increased considerably in the urban private firms; the former from 35.2 to 51.8 million dong per

[16] The main reference period for the 1991 survey was the calendar year of 1990, while for the 1997 survey it was the calendar year of 1996.
[17] All values are in 1996 years prices.

worker and the latter from 13.8 to 17.5 million dong per worker. In the household enterprises these increases were much more modest.

The increases in the size, capital intensity and labour productivity of the enterprises were most pronounced in the areas where enterprises in the past were weakest in this regard, notably Hanoi and Ha Tay. Thus, the pronounced gap between enterprises in the north and in the south as well as between rural and urban areas registered in 1990 had been considerably reduced by 1996. Similarly, the previously very large wage differences between the south and the north and between rural and urban areas had by 1997 been considerably reduced.

This decrease in the regional differences in enterprise characteristics is remarkable. It suggests that, at least as far as the non-state manufacturing sector is concerned, the rapid development in the 1990s was accompanied by a narrowing of the traditionally very large differences in the level of development between the north and the south and between rural and urban areas. It seems likely that the development and integration of markets contributed to this development. While in 1991 most enterprises acted only on the local market and were generally little exposed to competition and influences from outside, improved functioning of markets implied that by 1997 enterprises tended to sell further afield and had become much more exposed to non-local competition.[18] The pressure to restructure, improve efficiency and productivity would therefore have been strongest on the enterprises in the traditionally less developed areas. In places like Ha Tay, but also in Hanoi, this pressure has resulted in a dramatic transformation of the enterprises. As can be seen from Table 1, capital intensity, measured as assets per worker, increased by 760 per cent in Ha Tay, while labour productivity more than doubled. To this may be added that while in 1991 only a third of the enterprises in Ha Tay province had electricity, the use of electric power had become universal by 1997. It is uncertain to which extent the pronounced tendency towards equalisation of wages has been a cause or an effect of this development. However, the magnitude of this equalisation of wages deserves attention. In 1991 the average wage in Hanoi and in Ha Tay was only 46 and 35 per cent, respectively, of the average wage in Ho Chi Minh City. By 1997, the average wage in these two locations had increased to 77 and 59 per cent, respectively, of the average wage in Ho Chi Minh City (Table 1). The tendency towards equalisation of wages was not confined to the north - south dimension, but was also pronounced between enterprises within each areas as well as between men and women.[19]

By way of summing up, it may be concluded that the non-state manufacturing sector has registered a considerable consolidation in terms of size, capital base, capital

[18] This tendency is clearly documented by the two surveys. See Ronnås, 1992, *op. cit.* and Hemlin, Ramamurthy and Ronnås, 1998, *op. cit.*
[19] Hemlin, Ramamurthy and Ronnås, 1998, *op. cit.* pp. 151-155.

intensity and labour productivity in the 1990s and that this process has been accompanied by a sharp reduction in the regional differences in these regards. This transformation can basically have taken place through two non-exclusive processes. Firstly, through the appearance of new enterprises that are fundamentally different from existing enterprises with regard to size, capital intensity and labour productivity, and, secondly, through growth and transformation of existing enterprises. In the case of Vietnam, both of these processes have clearly been at work. The rest of the present study is devoted to detailed, individual analysis of each of these processes on the basis of the data from the surveys in 1991 and 1997.

Old versus New Enterprises

In order to determine to what extent the much larger size of the enterprises in 1997 than in 1991 was due to the establishment of increasingly larger enterprises, the enterprises surveyed in 1997 were divided into two groups; those established prior to 1991 and those established in 1991 or after. Table 2 reveals a striking difference between the two categories of enterprises. Generally speaking the newer enterprises were found to be much larger than the older ones. In Hanoi the more recently established enter-prises had, in 1996, on average about three times larger production and more assets than the older enterprises and 64 per cent more labour.[20] Labour productivity was also almost 50 per cent higher in the newer enterprises in Hanoi than in the older ones. In Haiphong and Ho Chi Minh City, too, the newer enterprises were considerably larger than the older ones. However, the differences in labour productivity between the two categories of enterprises were less pronounced in these two cities.[21]

The large differences in average size between the newer and the older enterprises were also found in the rural areas covered by the survey. In both Ha Tay and Long An the more recently established enterprises produced almost twice as much value added on average as the older enterprises in 1996. They were also about 50 per cent larger in terms of both size of capital and labour. However, in contrast to the situation in the urban areas, the newer enterprises in the two rural areas were on the whole not more capital intensive than the older ones. There was virtually no difference in labour productivity between the two categories of enterprises in Ha Tay,

[20] Hence, the capital/labour ratio was much higher in the more recently established enterprises, particularly in Hanoi and in Ho Chi Minh City

[21] For the urban survey as a whole, the differences in size between the two age groups of enterprises were statistically significant. A t-test shows that the differences with regard to income, assets, labour force, debts and value added were significantly different between the two groups at the 1 per cent level, while the difference in value added per worker was significant at the 7 per cent level.

while in Long An labour productivity in the newer enterprises was about 30 per cent higher than in the older enterprises.

Table 2
Main characteristics of enterprises, by period of establishment and location.

	Income	Value added	Assets	Debts	Labour force	Value added / worker	Assets / worker
Hanoi							
before 1991 (A)	470,941	140,069	457,132	15,861	13.8	9,741	33,216
1991 and after (B)	1,559,153	413,849	1,304,538	173,261	22.7	14,454	56,133
B as % of A	331	295	285	1,092	164	148	169
Ho Chi Minh City							
before 1991 (A)	1,503,955	449,792	639,323	35,782	20.7	22,120	32,019
1991 and after (B)	2,161,715	619.633	1,343,784	97,694	25.4	24,266	59,312
B as % of A	144	138	210	273	122	110	185
Haiphong							
before 1991 (A)	234,153	85,322	332,327	7,588	10.2	7,936	30,783
1991 and after (B)	415,729	134,229	545,394	39,636	14.1	8,590	33,810
B as % of A	178	157	164	522	138	108	110
Ha Tay							
before 1991 (A)	256,630	77,744	282,085	7,580	9.7	7,945	17,945
1991 and after (B)	394,866	159,100	393,755	50,889	15.8	7,840	18,283
B as % of A	154	205	140	671	163	99	102
Long An							
before 1991 (A)	153,888	61,584	144,246	1,515	5.6	10,491	23,609
1991 and after (B)	453,209	115,484	224,802	1,442	8.2	13,758	24,098
B as % of A	294	188	156	95	146	131	102

Remark: All figures refer to 5 per cent trimmed means. Output, assets, debts and value added are expressed in thousand dong. The percentage of enterprises with debts was 15.9 and 34.0, respectively, in Hanoi, 26.2 and 22.7 in Ho Chi Minh City, 29.5 and 41.1 in Haiphong, 19.4 and 38.0 in Ha Tay and 25.7 and 17.0 in Long An.

This picture clearly shows that the establishment of increasingly large enterprises has been a main factor behind the general increase in the size of enterprises between 1990 and 1996. The increasing size of newly established enterprises is also reflected in the age structure of the various ownership types of the enterprises. Generally speaking the private and limited liability enterprises covered by the survey tend to be more recently established than, in particular, the partnerships and co-operatives. In the urban areas almost three out of four private enterprises were established after 1990, as against less than one out of every five partnership and collective enterprises (Table 4). Among the urban household enterprises slightly more than half had been established after 1990. In the rural areas the proportion of newer enterprises was slightly lower than in the urban areas (Table 4). Approximately two out of every three private enterprises and half of the household enterprises had been established since 1991. Somewhat surprisingly, among the other types of enterprises in the rural areas (primarily partnerships and co-operatives) the vast majority were new.

Table 3
Enterprises by period of establishment and location (per cent).

	Hanoi	HCM City	Haiphong	Ha Tay	Long An
Before 1991	58.0	35.9	44.0	38.3	42.7
1991 and after	42.0	64.1	56.0	61.7	57.3

Table 4
Enterprises by period of establishment and ownership form (per cent).

	Urban					Rural		
	House-hold	Private	Partner-ship	Co-operative	Ltd. & share	House-hold	Private	Others
Before 1991	55.1	27.0	60.0	84.2	5.1	47.3	35.4	22.7
1991 and after	44.9	73.0	20.0	15.8	94.9	52.7	64.6	77.3

Table 5
Main characteristics of urban enterprises, by period of establishment and ownership form.

	Income	Value added	Assets	Debts	Labour force	Value added/ worker	Assets / worker
Household enterpr.							
before 1991 (A)	171,181	60,676	134,243	979	5.2	10,522	25,475
1991 and after (B)	260,316	80,897	182,880	967	6.3	11,589	33,649
B as % of A	152	133	136	99	121	110	132
Private enterprises							
before 1991 (A)	728,517	300,839	1,016,777	43,304	15.8	16,155	71,250
1991 and after (B)	1,549,046	486,906	1,011,248	86,120	25.6	18,332	40,850
B as % of A	212	162	99	192	161	113	57
Partnerships							
before 1991 (A)	398,718	143,820	371,585	1,250	11.7	11,951	31,553
1991 and after (B)	133,503	67,032	165,081	0	7.9	8,670	22,267
B as % of A	33	47	44	0	68	73	71
Co-operatives							
before 1991 (A)	1,255,710	356,238	786,728	73,483	27.0	14,468	30,191
1991 and after (B)	337,308	153,314	558,572	94,444	22.5	8,041	32,349
B as % of A	27	43	71	129	83	56	107
Ltd. & share ent.							
before 1991 (A)	...	...	...	...	...	...	...
1991 and after (B)	2,457,213	682,351	2,063,660	240,044	31.0	21,234	72,700
B as % of A	...	...	...	...	...	...	...

Remark: All figures refer to 5 per cent trimmed means. Output, assets, debts and value added are expressed in thousand dong. The percentage of enterprises with debts was 14.8 and 15.1, respectively, among household enterprises, 23.5 and 41.3 among private enterprises, 12.5 and 0.0 among partnerships, 37.5 and 55.6 among co-operatives and 35.1 among the limited liability firms. As there were only four limited liability firms established before 1991 in the sample, figures for this category were not included.

In terms of location, it may be seen that Ho Chi Minh City had the highest proportion new enterprises, followed by Ha Tay, Long An and Haiphong, while in Hanoi the majority of the enterprises had been established before 1991 (Table 3).

However, the increasing predominance of private and limited liability firms among newly established enterprises does not entirely explain the larger size of new enterprises. An examination of the average size of enterprises by age group and ownership form in the urban areas reveals that both among the household and the private enterprises the newer enterprises tend to be larger than the older ones (Table 5). Thus, the more recently established household enterprises produced on average 33 per cent higher value added than the older household enterprises in 1996. Among the private enterprises the difference was even larger; 62 per cent. It is interesting to note that among the private enterprises the average labour force was much larger in the newer enterprises than in the older ones, while there was hardly any difference between the two groups with regard to assets. This suggests that the newer private enterprises are rather more labour intensive than the older ones. Yet labour productivity was on average 13 per cent higher in the newer enterprises, indicating that they are more efficient. Among the urban household enterprises the picture is somewhat different, both the capital stock and the labour force is on average larger in the newer than in the older enterprises, as is labour productivity and capital intensity. Thus, it would appear that these two types of enterprises are not only rapidly increasing in number, but that the size of the newly established enterprises has also increased over time.

Among the partnership as well as the co-operative enterprises in the urban areas the picture is exactly the reverse of that of the household and private enterprises.[22] The older partnerships and co-operatives tend to be much larger than the more recently established ones. The magnitude of the difference is more than one to two with regard to value added and even more with regard to total income. The older enterprises also tend to have a larger labour force than the younger ones, although the difference is not as pronounced as with regards to assets. It is interesting to note that the labour productivity, measured as valued added per worker, is also considerably lower in the more recently established partnership and co-operative enterprises than in the older ones. Indeed, it is also much lower not only than the labour productivity in the private enterprises, but also than in the household enterprises. While this might be interpreted as an indication that partnership and co-operative enterprises grow rapidly after they have been established, a more likely interpretation is that the very nature of these enterprise forms has changed in the 1990s and that the size at the time of

[22] The comparisons for the partnership and co-operative enterprises should be interpreted with some caution as there were only eight partnership and nine co-operative enterprises established since 1991 in the sample.

establishment has become much smaller than it used to be. The relative importance of these types of enterprises has declined considerably in the past decade and the number of new establishments has been quite small.

Table 6
Main characteristics of rural enterprises, by period of establishment and ownership form

	Output	Value added	Assets	Debts	Labour force	Value added/ worker	Assets / worker
Household enterpr.							
before 1991 (A)	62,055	30,127	53,755	580	3.9	7,559	13,428
1991 and after (B)	63,748	26,669	40,470	335	3.3	7,906	12,034
B as % of A	103	89	75	58	120	105	90
Private enterprises							
before 1991 (A)	821,713	193,895	530,216	42,353	13.8	13,680	40,233
1991 and after (B)	909,684	233,856	420,726	30,287	19.1	13,700	23,714
B as % of A	111	121	79	72	138	100	59
Other forms							
before 1991 (A)	653,221	223,969	1,125,669	8,333	28.7	10,743	46,856
1991 and after (B)	2,002,717	512,035	1,630,565	192,549	30.6	16,466	52,339
B as % of A	307	229	149	2,311	107	153	112

Remark: All figures refer to 5 per cent trimmed means. Output, assets, debts and value added are expressed in thousand dong. The percentage of enterprises with debts was 18.2 and 14.3, respectively among the household enterprises, 35.3 and 32.0 among the private enterprises and 80.0 and 58.8 among the other types of enterprises.

The enterprises in the rural areas present a quite different picture from those in the urban areas (Table 6). Among both the household and the private enterprises in the rural areas the capital base is on average larger in the older than in the newer enterprises. The more recently established rural private enterprises produced somewhat more value added on average than the older enterprises did in 1996, while among the rural household enterprises the picture was the reverse. Furthermore, there was hardly any difference in labour productivity between the younger and the older household and private enterprises in the rural areas. Among the other forms of enterprises in the rural areas, it may be seen that the younger enterprises were much larger in terms of production and assets, but not labour force, than the older enterprises. However, it is difficult to draw any firm conclusions from this as the enterprises found in this category are quite diverse.

Table 7
Indebtedness, by period of establishment and location.

	Hanoi		HCM City		Haiphong		Long An		Ha Tay	
	-1990	1991-	-1990	1991-	-1990	1991-	-1990	1991-	-1990	1991-
Average debt	15,862	173,261	35,782	97,694	7,588	39,636	1,516	1,442	7,581	50,889
Share with no debt	84.1	66.0	73.8	77.3	70.5	58.9	74.3	83.0	80.6	62.0

Remark: Average debt in thousand dong. Averages refer to 5 per cent trimmed mean for all enterprises.

It deserves to be noted that among the urban enterprises in general, the size of debts is much larger among the more recently established enterprises than among the old ones (Table 7). This suggests two things. Firstly, that bank loans have increasingly become available to non-state manufacturing enterprises and, secondly, that loans are predominantly taken at the time of establishment. It should be noted that within each ownership form the debts among the newer enterprises are on the whole not larger than among the older enterprises, but that the difference in indebtedness is explained by a higher proportion of firms with debts among the more recently established enterprises and, in particular, a rather large number of limited liability companies with large debts among the newer enterprises. It is noteworthy that the difference in the incidence of debts between newer and older enterprises is largest among the private enterprises, which in the past had very little access to formal credit. Among the household enterprises the level of indebtedness is generally very low.

Table 8
Branch structure of urban enterprises, by period of establishment

	Hanoi		Ho Chi Minh City		Haiphong	
	-1990	1991-	-1990	1991-	-1990	1991-
Agricultural processing	11.6	14.0	19.0	13.3	27.3	13.3
Chemicals	0.0	0.0	2.4	6.7	0.0	6.7
Machinery & parts	5.8	8.0	7.1	6.7	6.8	6.7
Ceramics	0.0	2.0	0.0	0.0	0.0	0.0
Bags & covers	2.9	6.0	7.1	16.0	0.0	16.0
Carpentry & furniture	11.6	14.0	7.1	9.3	25.0	9.3
Light engg. & cons. goods	36.2	20.2	23.8	25.3	25.0	25.3
Medicine & med. equip.	2.9	4.0	2.4	4.0	0.0	4.0
Bricks & tiles	0.0	6.0	0.0	0.0	0.0	0.0
Paper & other stationary	4.3	8.0	7.1	2.7	0.0	2.7
Arts & handicrafts	4.3	6.0	16.7	5.3	9.1	5.3
Cloth, garment & access.	14.5	4.0	4.8	5.3	6.8	5.3
Heavy engineering	0.0	2.0	0.0	1.3	0.0	1.3
Services	2.9	2.0	2.4	4.0	0.0	4.0
Constr. & building mtrl	2.9	4.0	0.0	0.0	0.0	0.0

Although there are some differences in the branch structure of the enterprises established before and after 1991, the picture differs from city to city and the only general pattern that appears to have emerged is an increasing diversification in the branch structure (Table 8). Thus, in Hanoi there was a relative decrease in the establishment of enterprises producing light engineering, general consumer goods, cloth and garments, while the proportion of new firms in almost all other branches increased somewhat. In Ho Chi Minh City, there was a relative decline in the number of new establishments in the fields of agro-processing, arts and handicraft, and paper and stationary production. In Haiphong, the relative number of establishments in agro-processing and in carpentry and furniture production declined sharply.

Table 9
Branch structure of rural enterprises, by period of establishment .

	Long An		Ha Tay	
	-1990	1991-	-1990	1991-
Agricultural processing	28.6	55.3	12.9	8.0
Chemicals	0.0	0.0	3.2	2.0
Machinery & parts	11.4	2.1	3.2	0.0
Ceramics	2.9	0.0	0.0	2.0
Bags & covers	0.0	2.1	0.0	0.0
Carpentry & furniture	14.3	14.9	41.9	24.0
Light eng. & cons. goods	28.6	17.0	12.9	8.0
Medicine & med. equipm.	0.0	2.1	0.0	0.0
Bricks & tiles	0.0	2.1	0.0	0.0
Paper & other stationary	2.9	0.0	0.0	0.0
Arts & handicrafts	2.9	2.1	16.1	34.0
Cloth, garment & access.	5.7	0.0	9.7	22.0
Heavy engineering	0.0	0.0	0.0	0.0
Services	0.0	0.0	0.0	0.0
Constr. & building mtrl	2.9	2.1	0.0	0.0

In the rural areas, the two provinces covered by the survey display quite opposite pictures (Table 9). In Long An, in the south, more than half of the firms established since 1991 are engaged in agro-processing, as against less than 29 per cent of the firms established prior to 1991. In Ha Tay, by contrast, only eight per cent of the firms established since 1991 are in the field of agro-processing. In Ha Tay, arts and handicraft and cloth and garment production account for more than half of the firms established since 1991, while the share of new establishments in traditional local industries such as carpentry and furniture has declined sharply.

There has been a quite pronounced shift in the type of people who set up enterprises since the beginning of the 1990s. In the past, most mangers were recruited from the ranks of blue collar workers, particularly in the north. Thus among the enterprises established prior to 1991 in the north, more than half of the managers had a past as manual non-farm workers (Table 10). Only in Ho Chi Minh City did this category not predominate among the managers of the older enterprises. In less than 20 per cent of the older enterprises in Hanoi did the manager have a past in the professional, technical, administrative or managerial fields. In the other locations managers with such a background were more common, but they did not make up a majority anywhere. Among the more recently established enterprises, the picture is dramatically different. There has been a pronounced trend everywhere towards a higher proportion of managers with a professional, technical, administrative or managerial background. The change has been most dramatic in Hanoi, where almost two thirds of the managers in the enterprises established since 1991 have come from the ranks of white collar workers, as against only 21 per cent prior to 1991.[23] By contrast, only 18 per cent of the managers in the newly established enterprises have a background as manual worker. The only location showing a slightly divergent trend is Ha Tay, where the main shift has been from managers with a background as non-farm manual workers to managers with a background in agriculture. By contrast, Long An, display the same trend as the three urban locations, with an increasing share of managers with white collar background.

Table 10
Previous occupation of manager, by period of establishment of enterprise and location.

	Hanoi		HCM City		Haiphong		Long An		Ha Tay	
	-1990	1991-	-1990	1991-	-1990	1991-	-1990	1991-	-1990	1991-
A	10.7	35.3	30.0	30.8	25.0	28.1	18.2	25.0	10.0	15.2
B	7.1	11.8	10.0	19.2	4.2	9.4	3.0	13.6	10.0	6.1
C	3.6	17.7	25.0	28.8	4.2	9.4	3.0	15.9	3.3	6.1
D	7.1	5.9	0.0	0.0	0.0	0.0	30.3	15.9	10.0	21.2
E	57.1	17.6	20.0	11.5	54.2	40.6	42.4	20.5	60.0	42.4
F	14.3	11.8	15.0	7.7	12.5	12.5	3.0	9.1	6.7	9.1
G	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0

A. Professional, technical and related.
B. Administrative and managerial.
C. Clerical, sales, services.
D. Agriculture, animal husbandry, forestry, fisherman, hunter.
E. Manual worker (manufacturing, construction, transport etc.).
F. Other.
G. Did not work.

Remark: Figures refer to household, private and joint stock holding companies only.

The trend towards managers with a past in managerial, professional or administrative positions is the same in both the household and private enterprises, although the proportion of managers with such a background remain smaller in the household enterprises (Table 11). Hence, this development seems to be unrelated to any changes in the ownership structure of newly established firms. The trend seems to

[23] White collar workers defined as categories A, B and C in Table 10.

be equally pronounced in the rural areas as in the urban areas, although the somewhat divergent picture in the two rural areas covered by the survey suggests that conclusions regarding the rural areas must be taken with some reservation.

Table 11
Previous occupation of manager, by period of establishment of enterprise and enterprise form.

	Urban areas				Rural areas			
	Household		Private		Household		Private	
	-1990	1991-	-1990	1991-	-1990	1991-	-1990	1991-
A	16.7	25.6	35.3	32.6	6.8	12.2	29.4	35.7
B	3.7	4.7	11.8	18.6	4.5	6.1	11.8	17.9
C	9.3	25.6	11.8	16.3	2.3	6.1	0.0	21.1
D	3.7	2.3	0.0	0.0	27.3	26.5	5.9	3.6
E	50.0	30.2	35.3	20.9	54.5	40.8	41.2	10.7
F	16.7	11.6	5.9	9.3	4.5	8.2	5.9	10.7
G	0.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0

A. Professional, technical and related.
B. Administrative and managerial.
C. Clerical, sales, services.
D. Agriculture, animal husbandry, forestry, fisherman, hunter.
E. Manual worker (manufacturing, construction, transport etc.).
F. Other.
G. Did not work.

The tendency towards a higher proportion of enterprises with managers with a professional, managerial or administrative background, underscores that the transformation of the non-state manufacturing sector in the 1990s has not only been towards larger enterprises with a higher capital intensity and labour productivity, but has also entailed a qualitative aspect requiring managerial skills beyond those obtained on the shop floor. Seen from a different angle, this development also indicates that changes in the overall economic environment is making it increasingly difficult for blue collar workers to successfully set up and run their own enterprises.

Patterns of Growth of Enterprises

Overall Development

An examination of the entire cohort of enterprises surveyed in 1991 and in 1997, including those no longer in operation by the latter date, yields, at first sight, a somewhat disheartening picture.[24] By the latter date only 66.9 per cent of the enterprises were still in existence, while the rest had closed down for one reason or another.[25] Although the total combined value added produced by these enterprises had increased by 12 per cent in real terms over the period, total employment had fallen by no less than 28 per cent and wage employment by 17 per cent. The value of the combined assets of the enterprises had, by contrast, increased by no less than 75 per cent in real terms (Table 12). The decline in employment was primarily due to the loss of employment following the closure of a large number of the enterprises.

Table 12
Aggregate change of key variables between 1990 and 1996
in the cohort of enterprises surveyed both in 1991 and in 1997 by location. Percentages.

	Hanoi	Ho Chi Minh City	Haiphong	Ha Tay	Long An	All areas
Value added	67.3	-19.8	112.5	-40.5	-32.2	12.1
Income	85.2	-55.9	100.5	-23.6	-14.6	-7.6
Assets	188.9	-52.2	64.5	16.1	246.1	74.8
Employment	7.0	3.4	-48.8	-56.9	-31.7	-28.3
Wage labour	15.7	18.8	-49.7	-53.3	-11.7	-16.6
No. of enterprises	-30.4	-20.5	-43.2	-33.3	-40.0	-34.1

Remark: The figures refer to the entire cohort of enterprises, including those no longer in existence in 1997. The figures exclude state enterprises. Value added, income and assets are expressed in real terms.

Generally speaking, the enterprises in Hanoi fared best. Although some 30 per cent of the surveyed enterprises in this city closed down during the period, the strong growth of a large number of the remaining enterprises ensured an overall increase in value added for the cohort as a whole of 67 per cent and a net increase in total and wage employment of 7 and 16 per cent, respectively. Thus, it may be concluded that the enterprises in this city went through a considerable consolidation over the period. The asset base, in aggregate terms as well as by enterprise and by worker, increased considerably, as did labour productivity measured as value added produced per worker.

[24] Excluding state enterprises.
[25] The reason behind their closure is analysed in some detail in a separate section below.

The enterprises in Haiphong, too, went through a process of consolidation, albeit of a more drastic nature. Although a record 43 per cent of the enterprises in this city closed down during the period, aggregate value added for the whole cohort more than doubled in real terms. This is all the more remarkable as employment fell by almost fifty per cent. This apparently contradictory development would seem to be due to the closure of a number of, primarily co-operative, enterprises with large labour force, but very low productivity.[26]

Enterprises in Ho Chi Minh City had the lowest mortality rate of the five locations, but also a rather poor performance of the surviving enterprises. Although "only" a fifth of the enterprises in this city disappeared, aggregate value added fell by almost as much. The sharp fall in aggregate assets and incomes among the enterprises in this city was exclusively due to very large assets among some of the enterprises which closed down.[27]

Table 13
Aggregate change of key variables between 1990 and 1996 in the cohort of urban enterprises surveyed both in 1991 and in 1997 by ownership form. Percentages.

	Household	Private	Partnership	Co-operative	All urban enterprises
Value added	17.0	48.1	-7.8	-31.1	22.8
Income	12.7	-19.1	-19.3	-21.5	-5.9
Assets	122.1	88.3	101.0	-41.3	73.3
Employment	-9.8	29.0	8.5	-49.3	-20.5
Wage labour	183.6	38.9	-1.0	-49.3	-9.6
No. of enterprises	-35.7	-23.3	-29.7	-39.2	-31.7

Remark: The figures refer to the entire cohort of enterprises, including those no longer in existence in 1997. The figures exclude state enterprises. Value added, income and assets are expressed in real terms. The categorisation by ownership form refers to the situation in 1991.

Generally speaking, the private enterprises performed better than the other types of enterprises in the urban areas. Relatively fewer enterprises of this category were closed down and this group of enterprises as a whole increased its production by nearly 50 per cent as well as its total and wage employment by 29 and 40 per cent, respectively.

The urban household enterprises, too, performed rather well. Even though some 36 per cent of these enterprises were closed down, value added increased by some 17 per cent and assets by an impressive 184 per cent, while total employment fell by 10 per cent. Although the mortality rate among these enterprises has been high,

[26] Three of the discontinued enterprises in Haiphong had over 100 employees in 1991.
[27] One of the enterprises which had closed down in Ho Chi Minh City ostensibly had a total turnover of 25.7 billion dong (at 1990 prices) in 1990, while another enterprise had one billion dong in both assets and turnover in 1990.

those which have survived have apparently, by and large, been able to consolidate themselves. Their asset base has been considerably strengthened and they have also increased production. The urban private enterprises also display the same indications of having gone through a process of weeding, which has left the survivors fitter and stronger, although this process would seem to have been much more pronounced for the urban household than for the urban private enterprises.

By contrast, the development of the urban co-operative enterprises show few such redeeming features. Not only were 39 per cent of these enterprises closed down, but value added produced, assets and, not least, employment fell just as much or more for the group as a whole. A main reason for this dismal overall performance was the large size of many of the closed down units.

Table 14
Aggregate change of key variables between 1990 and 1996 in the cohort of rural enterprises surveyed both in 1991 and in 1997 by ownership form. Percentages.

	Household	Private	All rural enterprises
Value added	-2.1	-40.1	-36.0
Income	-22.5	-6.0	-18.0
Assets	62.4	215.3	94.4
Employment	-13.4	-40.8	-50.6
Wage labour	129.9	-41.5	-47.7
No. enterprises	-36.8	-29.3	-36.6

Remark: The figures refer to the entire cohort of enterprises, including those no longer in existence in 1997. Apart from household and private enterprises, the rural total also includes a few partnership and co-operative enterprises. Value added, income and assets are expressed in real terms. The categorisation by ownership form refers to the situation in 1991.

By and large, the rural enterprises fared much worse than the urban during the period. A somewhat lower proportion of the rural than of the urban enterprises were still in operation in 1991 (63 versus 68 per cent), but more importantly, growth of the surviving enterprises did not make up for the loss of production and employment of those which closed down. The loss of employment was to a large extent due to the closure of a few rather large co-operative and partnership enterprises at the same time as the remaining enterprises generated little if any new employment. The rather dismal development of the rural enterprises was not altogether unexpected. The rural enterprises covered by the survey in 1990 consisted, apart from a number of seemingly moribund co-operatives, also of a large number of rather primitive household enterprises which were poorly endowed, suffered from low productivity and capable of producing little more than a subsistence income for the household members employed in them. With the opening up of the rural markets and increased competition, it was to be expected than many of them had little chance of developing and prospering. On the positive side it should be noted that the asset base has been considerably strengthened among the enterprises which have survived. It would appear as though the rural enterprises have gone through a period of rather forceful restructuring, driven by increasingly fierce competition, where the fittest have adapted and become stronger, but which has also resulted in many casualties. This would seem to have been the case both in Ha Tay and in Long An. The effects have generally been more drastic in Ha Tay, although the share of discontinued enterprises has been higher in Long An, mainly because closures in the former province affected a number of large co-operative and partnership enterprises while in the latter province mainly household enterprises were closed down. That enterprises in Ha Tay generally fared worse than those in Long An is hardly surprising, considering that the enterprises in Ha Tay were generally much weaker and poorer than those in Long An in 1991. Although the mortality rate has been higher among the household than private enterprises in the rural areas, it is the latter group which has registered the most severe overall decline in production and employment. In a way this is not surprising, as the scope for decline of either income or employment in most household enterprises must have been very small, considering the very low levels of production at the starting point.

Survival and Development Patterns

By the time of the survey in 1997 altogether 65.5 per cent of the enterprises surveyed in 1991 were still in operation.[28] This proportion varied between location and ownership forms. The highest proportion of surviving enterprises was found in Ho Chi Minh City, 78 per cent, followed by Hanoi, 68 per cent, and Ha Tay, 63 per cent, while in Long An and Haiphong only 58 and 52 per cent, respectively, of the enterprises were still in existence. Generally speaking, the rate of survival was somewhat higher in the urban than in the rural areas (Table 15).

Both in urban and in rural areas the private enterprises registered the lowest number of closures.[29] In urban areas more than three fourths and in rural areas more than two thirds of the private enterprises surveyed in 1991 were still in operation in 1997. Among the household enterprises the survival rate was somewhat lower; 64 per

[28] The repeat survey of the enterprises surveyed in 1991 was confined to non-state manufacturing enterprises in Hanoi, Ho Chi Minh City, Haiphong and the provinces of Long and Ha Tay (previously Ha Son Binh). For details, see Chapter One.
[29] Ownership form throughout this section of the study refers to that stated at the time of the survey in 1991.

cent in the urban and 62 per cent in the rural areas. Among the partnership enterprises, 68 per cent of the urban, but only one of six rural, still existed in 1997. The lowest rate of survival was found among the co-operative enterprises, where 61 per cent of the urban, but none of the rural, were operating in 1997.[30] In the rural areas relatively more manufacturing than agro-processing enterprises were still in operation in 1997; 66 as against 54 per cent.

Table 15
Development of enterprises between 1990 and 1996 by location.
Average annual percentage change of value added.

	Hanoi	Ho Chi Minh City	Hai Phong	Ha Tay	Long An
Closed down	31.6	22.4	47.5	36.6	41.7
Decline over 2.5%	12.3	35.5	18.8	19.7	23.6
2.5 – 2.5	8.8	5.3	3.8	9.9	8.3
2.6% -- 10.0%	10.5	10.5	6.3	7.0	6.9
Growth over 10.0%	36.8	26.3	23.8	26.8	19.4

However, the survival ratio provides only a part of the picture of the development of the enterprises. When the rate of survival is combined with the growth performance in terms of value added created of the enterprises still in operation in 1997 (Tables 15-17) an intriguing picture emerges. It would appear that the vast majority of enterprises fall into two distinct categories; those which have grown at a very rapid pace (by more than 10 per cent per year in real terms) and those which have closed down or suffered pronounced decline.[31]

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[30] There were only two collective enterprises in the rural sample of repeat enterprises
[31] Value added was chosen as the key indicator of growth as it was perceived to be more relevant than alternative indicators, such as total income, assets or employment. As shown below value added generally also has the highest positive correlation with other relevant indicators.

Correlation of average annual rate of change between 1990 and 1996 of key economic indicators

	Value added	Assets	Labour	Wage labour
Urban areas				
Income	0.85**	0.49**	0.55**	0.42**
Value added		0.57**	0.64**	0.48**
Assets			0.49**	0.40**
Labour				0.79**
Rural areas				
Income	0.85**	0.55**	0.52**	0.54**
Value added		0.51**	0.48**	0.41*
Assets			0.51**	0.33
Labour				0.44**

** Significant at the 0.001 level
* Significant at the 0.01 level

The proportion of less successful enterprises, which either closed down or declined in terms of value added by more than 2.5 per cent per year, ranged from 44 per cent in Hanoi to no less than two thirds in Haiphong and Long An. In Ho Chi Minh City and in the province of Ha Tay a clear majority of the enterprises, 58 and 56 per cent, also fell into this category. It is interesting note that when lumped together in this manner, the differences across locations becomes much smaller than when the categories 'closed down' and 'declining' are examined individually. It would appear that in Ho Chi Minh City a considerably smaller share of the less successful enterprises closed down than in the other locations. Thus, while this city had the lowest proportion of discontinued enterprises, it had the highest share of (still surviving) enterprises registering sharp decline.

Table 16
Development of urban enterprises between 1990 and 1996 by ownership form.
Average annual percentage change of value added.

	Household	Private	Partnership	Co-operative	State
Closed down	35.7	24.6	31.6	39.2	(100.0)
Decline over 2.5%	19.6	31.1	34.2	11.8	(0.0)
-2.5% -- 2.5%	3.6	8.2	2.6	7.8	(0.0)
2.5% -- 10.0%	8.9	8.2	5.3	13.7	(0.0)
Growth over 10.0%	32.1	27.9	26.3	27.5	(0.0)

Remark: There were only six state enterprises in the sample. All closed down during the period.

Table 17
Development of rural enterprises between 1990 and 1996 by ownership form.
Average annual percentage change of value added.

	Household	Private	Partnership	Co-operative
Closed down	38.4	32.8	(83.3)	(100.0)
Decline over 2.5 %	17.8	29.5	(0.0)	(0.0)
- 2.5% -- 2.5%	11.0	8.2	(0.0)	(0.0)
2.6% -- 10.0 %	4.1	9.8	(16.7)	(0.0)
Growth over 10.1%	28.8	19.7	(0.0)	(0.0)

Remark: There were only six partnership and two co-operative enterprises in the sample.

An examination by ownership forms reveals the same pattern. Thus, in the urban areas, the household and co-operative enterprises had the highest share of closed down enterprises, but the lowest share of declining enterprises among those still in operation. On the whole, it would appear that among the urban enterprises the partnership enterprises had the poorest performance, with two thirds of the enterprises either discontinuing their operation or registering sharp decline. The pattern across ownership forms in the rural areas is broadly similar. Although the incidence of closure was higher among the household than the private enterprises, the former had a much smaller share of surviving, but declining enterprises.

At the other end of the scale is a rather high proportion of enterprises registering very rapid growth indeed. Some 37 per cent of the enterprises in Hanoi, about a fourth of the enterprises in Ho Chi Minh City, Haiphong and Ha Tay and a fifth of the enterprises in Long An increased their value added by more than ten per cent per year in real terms between the two surveys.

This reinforces the impression that the 1990s was a decade of dramatic structural change amidst growth, This environment offered great possibilities of growth for those astute and adaptable enough to exploit these opportunities, at the same time as it was merciless on those enterprises which failed to adapt and change with times. Table 15 reinforces the impression from Table 12 that these changes were generally more dramatic in the north than in the south. Thus, Hanoi had a much higher proportion of rapidly growing enterprises (37 per cent) than the other cities, as well as a rather high mortality rate. Haiphong would seem to differ from Hanoi in that it offered a harsher economic environment and/or that its enterprises were less viable. Thus, the mortality rate among the repeat enterprises was higher, while the share of fast growing enterprises was lower than in either Hanoi or Ho Chi Minh City.[32]
Similarly, despite the much weaker economic base of the enterprises in Ha Tay province than in Long An, the former generally fared better. Thus, the enterprises i Ha Tay not only registered a lower mortality rate than those in Long An, but also a higher proportion of fast growing enterprises and a smaller number of declining enterprises.

An examination of growth by ownership forms of enterprises shatters several common prejudices. Firstly, it may be noted that the highest proportion of fast growing enterprises is found among the household enterprises, both in the urban and in the rural areas. While it may be argued that the modest starting point makes even modest absolute growth look impressive in relative terms, small household enterprises often face organisational, managerial and operational barriers to growth. Not least the inevitable increase in wage labour as the enterprise expands, dramatically changes the

[32] The large increase in aggregate value added in this city was largely due to the very impressive performance of a few enterprises,

cost structure of production and implies that the need for managerial and organisation skills increases considerably. Seen in this light, the fact that 32 per cent of the urban and 29 per cent of the rural household enterprises grew by more than 10 per cent per year is both impressive and encouraging (Tables 16 and 17). That this growth was associated with increased use of wage labour is clearly demonstrated by the fact that the net wage employment in the urban household enterprises which were still in operation in 1997 was 142 persons or 3.7 persons on average per enterprise. This should be seen against the fact the most of the enterprises did not employ any wage labour in 1991.[33] The fast growing enterprises accounted for most of this increase.

From a policy perspective the finding that a quite large proportion of the household enterprises grow rapidly and hire wage labour is important. When seen in the light of the fact that the overwhelming majority of non-state enterprises in Vietnam are household enterprises, it must be concluded that the dynamic household enterprises do indeed constitute a major source of industrial growth and employment generation. One relatively easy way of promoting this dynamism would be to facilitate the change of an enterprise from one ownership form to another; for example from household to private. In the present sample only four out of 36 urban, but nine out of 45 rural, household enterprises graduated to a 'higher' form of enterprise, although many more obviously had the characteristics of a private rather than a household enterprise by 1997.

Another popular conception which the data belies is that the co-operatives in the 1990s were moribond. While this may largely have proved to be true in the rural areas where the co-operative, as well as partnership, enterprises in the survey all fared badly, the urban co-operatives had a much more mixed performance. Although close to 40 per cent of them closed down during the period, more than a fourth increased production by more than ten per cent per year. Thus, the negative overall performance notwithstanding (Table 16), a fair share of the co-operatives have apparently managed to adapt to the more market oriented environment and have prospered. Some of these success stories were transformed into other ownership forms, mainly to limited liability companies, but the majority remained co-operatives.[34]

[33] In 1991 these enterprises had a combined total wage labour force of 31, that is less than one per enterprise.
[34] Ten out of fourteen fast growing collectives did not change ownership form.

Table 18
Average annual rate of growth of value added of enterprises 1990 - 1996 by location.

	Hanoi	Ho Chi Minh City	Haiphong	Ha Tay	Long An
Mean	12.5	4.6	13.2	5.3	4.6
Percentiles:					
- 10	-12.6	-21.9	-22.1	-26.1	-19.1
- 25	-1.2	-14.6	-4.6	-9.8	7.8
- 50	11.1	-0.4	7.6	4.4	0.7
- 75	19.7	18.6	23.3	24.8	15.0
- 90	39.4	34.5	61.4	30.1	31.3

A more detailed analysis of the growth pattern in terms of value added of the repeat enterprises still operating in 1997 reinforces the picture depicted above. The average rate of growth was almost three times as high in Hanoi and Haiphong as in Ho Chi Minh City (Table 18). In Hanoi only a quarter of the repeat enterprises registered a decline in value added produced between 1990 and 1996, as against half of the enterprises in Ho Chi Minh City. In Hanoi half of the enterprises grew by more than 11 per cent per year and almost a quarter of them grew by more than 20 per cent per year. The performance was similarly impressive in Haiphong. In Ho Chi Minh City, too, almost a quarter of the enterprises grew by more than 20 per cent per year, but the performance of the remaining 75 per cent was much more dismal than in Hanoi or Haiphong.

The enterprises in the rural areas on average grew at a slower rate than in the urban areas. To be more precise, while the average growth rate of the enterprises in tthe southern province of Long An was about the same as that of Ho Chi Minh City, the enterprises in the northern province of Ha Tay on average grew more slowly than those in the neighbouring cities of Hanoi and Haiphong. The development of the enterprises in Hai Tai presents a very polarised picture. At the bottom end, it can be seen that a quarter of the enterprises decreased by ten per cent of more per year, while at the top end a quarter of the enterprises grew at a staggering rate of 25 per cent of more per year. By comparison, the picture in Long An was much less dramatic.

Among the various ownership forms, the surviving household enterprises would seem by and large to have had the most impressive development, both in the urban and in the rural areas (Table 19 and 20). Their average rate of annual growth was 13 per cent in the urban and 8 per cent in the rural areas. In the urban areas two thirds of them registered positive growth rates. Almost half of them grew by ten per cent per year or more, thus clearly qualifying as fast growing enterprises, and a quarter of them grew by a staggering 30 per cent or more per year.

Table 19
Average annual rate of growth of value added of urban enterprises 1990 - 1996 by ownership form.

	Household	Private	Partnership	Co-operative
Mean	13.2	6.7	2.9	13.5
Percentiles:				
- 10	-16.5	-20.7	-33.2	-13.2
- 25	4.0	-10.4	-13.9	-1.2
- 50	9.8	1.4	-2.0	9.1
- 75	29.9	13.6	16.2	19.7
- 90	42.0	43.2	28.3	54.6

Table 20
Average annual rate of growth of value added of rural enterprises 1990 - 1996 by ownership form and area of activity.

	Household	Private	Agro-processing	Manufacturing
Mean	7.8	1.9	10.9	3.9
Percentiles:				
- 10	- 19.1	- 28.6	- 24.9	- 24.8
- 25	- 6.2	- 15.7	- 10.2	- 9.5
- 50	7.2	- 1.0	3.3	0.7
- 75	20.5	23.6	29.6	21.9
- 90	29.1	33.1	64.6	29.7

In the rural areas the growth of the household enterprises was somewhat less impressive than in the urban areas. The proportion of enterprises with positive growth was smaller; 59 per cent. Yet half of the enterprises grew by more than 7 per cent per year and a quarter by more than 20 per cent per year. Those in Ha Tay seem to have performed slightly better than those in Long An, but this difference is hardly significant.

The urban co-operatives, too, performed quite well. Almost three quarters of the surviving enterprises registered positive growth, half of them grew by more than nine per cent per year and a quarter of them by 20 per cent per year or more.[35] The high average rate of growth of the urban co-operatives, 13.5 per cent per year, was influenced by a small number of very rapidly growing enterprises.

The development of the urban co-operatives contrasts with the much poorer performance of the partnership enterprises. More than half of the urban partnership enterprises actually declined, many of them significantly and the performance of the most successful partnership enterprises was much less impressive than that of the most successful of the other types of enterprises. In the rural areas the development of the few partnership enterprises found in the sample was, as noted above, dismal.

[35] It should be recalled that the co-operatives had the highest mortality rate of all ownership forms.

The performance of the private enterprises, both in the urban and in the rural areas, was mixed. Although the performance in the urban areas was somewhat better than in the rural areas, it should be noted that in both areas about half of the enterprises either declined or did not grow at all. Although a small minority of the private enterprises in the urban areas performed extremely well, rapid growth was much less broad based and involved relatively fewer enterprises than among the household and co-operative enterprises. In the rural areas, however, the private enterprises equalled the household enterprises with regard to the proportion of fast growing enterprises.

An examination of the enterprise performance by branches does not yield a very conclusive picture. Most branches had both declining and rapidly growing enterprises, suggesting that line of activity was not a major determinant of growth. Still, enterprises in some branches would seem to have fared better than others. In the urban areas, 'construction and building materials', 'machine building' and 'services' performed better than average, while 'carpentry and furniture making' and, in particular, 'cloth and garment production' performed worse than average.

In the rural areas a somewhat more clear-cut, but also different, picture emerges. Hence, enterprises involved in 'construction and building materials' and 'arts and handicraft' performed much above average. 'Carpentry and furniture' had a number of very successful as well as a number of declining enterprises, while the performance of the enterprises engaged in 'services' and in 'light engineering', in particular, but also in 'food production' was clearly below average. With regard to the latter it should also be noted that agro-processing firms registered a very high rate of closures; 46 per cent.

On Accumulation, Growth and Employment

More than any other factors, the ability to accumulate capital at a rapid pace has determined the survival and growth of the small-scale manufacturing enterprises in the 1990s. The correlation between accumulation of capital and growth in terms of value added produced is remarkably high.[36] While this link may seem trivial at first, the nature of the link and its implications show that it is not.

Table 21.
Average annual rate of growth of assets, employment and labour productivity by growth categories of enterprises.

[36] The correlation coefficient was 0.85 for both the urban and the rural enterprises, at 0.1 per cent significance level.

	I	II	III	IV	All enterprises
Urban					
Assets	3.0	11.3	22.6	38.2	21.5
Employment	-5.3	-3.4	1.6	8.6	1.9
Productivity	-8.6	4.1	5.6	21.4	7.4
Rural					
Assets	10.7	37.5	43.2	56.2	35.1
Employment	-5.8	3.5	3.1	6.6	1.2
Productivity	-9.7	-3.1	2.9	20.6	4.2

I: Enterprises with an average annual decline of value added of more than 2.5 per cent.
II: Enterprises with an average annual change of value added between -2.5 and 2.5 per cent.
III. Enterprises with an average annual increase of value added between 2.5 and 10.0 per cent.
IV: Enterprises with an average annual increase of valued added of more than 10 per cent.

Remark: All figures refer to percentage average annual change. Labour productivity calculated as value added per worker.

Firstly, the enterprise data clearly show that what might be considered as a modest, but respectable rate of capital accumulation of, say, 10 per cent, does not suffice. The threshold in terms of capital accumulation needed in order for an enterprise to achieve a take-off and grow was very high indeed. In the urban areas, even the enterprises growing by a modest rate of 2.5 to 10 per cent per year had an average annual rate of capital accumulation of 23 per cent, while the fast growing enterprises with growth rates in excess of 10 per cent per year had an average rate of capital generation of 38.2 per cent per year (Table 21). Among the latter, only a quarter had a rate of capital accumulation of less than 15 per cent per year.

In the rural areas, the rate of capital accumulation needed for growth was even higher. Even among the enterprises with a modest growth rate of 2.5 to 10 per cent per year it averaged 43 per cent and among the faster growing enterprises it was an extraordinary 56 per cent per year (Table 21).

The finding that growth requires very high levels of capital accumulation is supported by the fact that the declining enterprises, too, generally registered net increases in capital, although at much lower rates (Table 21).

Secondly, as discussed above, the enterprises display a pronounced dualistic pattern in terms of performance. At the lower end, 50-60 per cent of the enterprises either closed down or declined significantly during the six year period between the two surveys (Table 15-17). It can reasonably be assumed that in the long run the majority of the declining enterprises, too, will close down. At the upper end, 25-35 per cent of the enterprises grew at more than 10 per cent per year. Remarkably few enterprises registered zero or only modest growth. Hence, the ability to achieve very high rates of capital accumulation would by and large seem to be a prerequisite not only for growth, but also for the long term viability of the enterprise.

Third, in the virtual absence of access to credits, accumulation of capital has to be self-generated and hence is tantamount to very high profit margins. In other words, just making ends meet or achieving modest profits is not enough for long term viability of the enterprise.

Table 22
Average annual rate of growth of assets, employment and labour productivity by growth categories and location of enterprises.

	Hanoi	Ho Chi Minh City	Haiphong	Ha Tay	Long An
All enterprises					
Assets	24.6	14.8	27.8	38.1	31.7
Employment	2.2	1.1	2.6	0.7	1.6
Productivity	10.7	3.4	10.0	5.3	2.9
Declining enterprises					
Assets	5.4	1.3	5.0	3.1	17.4
Employment	-5.5	-3.5	-8.5	-8.0	-3.9
Productivity	-4.5	-11.4	-5.1	-11.1	-8.5
Growing enterprises					
Assets	33.2	27.7	42.8	61.1	43.4
Employment	6.5	5.0	9.7	5.0	6.7
Productivity	14.8	18.8	19.5	18.2	14.4
Fast-growing enterprises					
Assets	37.7	23.8	52.3	65.6	44.0
Employment	7.4	6.2	12.5	6.7	6.5
Productivity	17.7	24.2	22.7	20.9	20.2

Remark: Declining enterprises defined as enterprises with an average annual decline of value added in excess of 2.5 per cent. Growing enterprises defined as all enterprises with an average annual increase of value added in excess of 2.5 per cent. Fast-growing enterprises defined as enterprises with an average annual increase in value added in excess of 10 per cent.

Productivity defined as value added produced per worker. Employment refers to total employment.

This does not imply that credits has not played any role at all as a means of capital accumulation. By 1997 some 26 per cent of the urban and 21 per cent of the rural enterprises had some debt, more often than not in the form of bank loans. However, even among those with debts, the level of indebtedness was quite modest. Both among the urban and the rural enterprises with debts, the share of debts in total capital was only 20 per cent. The enterprises growing by at least 2.5 per cent per year had a higher incidence of debts than average, suggesting both that credit was by and large given on a commercial basis to sound enterprises rather than to support declining ones, and that the importance of credits to growth was larger than the above figures might suggest. Thus, some 36 per cent of the growing urban enterprises had debts, as against only 12.5 per cent of the declining ones. For the rural enterprises the corresponding figures were 31 and 12.5 per cent, respectively. As might be expected, credit was primarily extended to the larger enterprises. Both in the urban and the rural areas between 27 and 32 per cent of the private, partnership and co-operative enterprises had debts, as against only 11 - 13 per cent of the household enterprises.

The need for consolidation and continuous strengthening of the asset base may be expected to be strongest for the small enterprises and in the areas where technological change is fastest. Indeed, the average rate of capital accumulation among the enterprises in Ho Chi Minh City has been significantly lower than in the other locations (Table 22). Thus, this rate was only 24 per cent per year among the fast growing enterprises in Ho Chi Minh City, as against 38 per cent in Hanoi, 52 per cent in Haiphong and a staggering 66 per cent in Ha Tay.[37] An additional factor behind this discrepancy may well be a strong pressure, as markets become more integrated, to reduce the technological gap between the comparatively stronger and more advanced enterprises in Ho Chi Minh City and those in the north. Other findings, such as the decreasing wage gap between the north and the south may be interpreted to support this view.

Similarly, the generally much smaller household enterprises not only need to achieve higher rates of capital accumulation in order to survive and grow than other types of enterprises, but also, it would seem, find it easier to do so. Thus, in the urban areas household enterprises growing by 2.5 per cent of more per year had an average rate of capital accumulation of 49 per cent, compared to 20 per cent for the private, 36 per cent for the partnership and 32 per cent for the co-operative enterprises (Table 23). However, even for the comparatively large co-operative enterprises a very high rate of capital accumulation was a precondition for growth.

In the rural areas, the rate of capital accumulation was generally higher than in the urban areas, and it would seem as though the threshold to achieve growth was generally much higher. Among the rural enterprises growing by more than 2.5 per cent per year, that is about a third of the enterprises, the average annual rate of capital accumulation was 58 per cent for the household and 48 per cent for the private enterprises (Table 24).

[37] Fast growing enterprises defined as growing by more than 10 per cent per year in terms of value added produced.

Table 23.
Average annual rate of growth of assets, employment and labour productivity by growth categories and ownership form of urban enterprises.

	Household	Private	Partnership	Co-operative	All urban
All enterprises					
Assets	36.6	10.3	18.8	22.9	21.5
Employment	4.8	2.2	-0.9	0.1	1.8
Productivity	7.4	4.9	3.9	14.0	7.4
Declining enterprises					
Assets	14.1	-0.6	-0.1	-0.1	3.0
Employment	-3.8	-5.1	-8.7	-1.3	-5.3
Productivity	-7.6	-8.6	-8.2	-10.7	-8.6
Growing enterprises					
Assets	49.0	19.9	36.0	32.3	34.3
Employment	9.4	9.5	6.6	1.6	6.9
Productivity	15.3	16.2	16.5	22.5	17.6
Fast-growing enterprises					
Assets	56.0	24.1	39.4	31.0	38.2
Employment	12.2	11.0	7.2	2.1	8.6
Productivity	17.1	19.8	19.0	30.8	21.4

Remark: Declining enterprises defined as enterprises with an average annual decline of value added in excess of 2.5 per cent. Growing enterprises defined as all enterprises with an average annual increase of value added in excess of 2.5 per cent. Fast-growing enterprises defined as enterprises with an average annual increase in value added in excess of 10 per cent. Categorisation by ownership form refers to the situation in 1991. Productivity defined as value added produced per worker. Employment refers to total employment.

A comparison of the enterprise environment in the rural areas at the time of the survey in 1991 and in 1997 reveals that fundamental changes have taken place both with regard to the nature of the enterprises and the economic environment they operate in.

Table 24
Average annual rate of growth of assets, employment and labour productivity by growth categories and ownership form of rural enterprises.

	Household	Private	All rural enterprises
All enterprises			
Assets	39.4	29.4	35.0
Employment	3.2	-1.3	1.1
Productivity	5.4	3.0	4.2
Declining enterprises			
Assets	8.4	12.4	10.7
Employment	-1.8	-9.0	-5.8
Productivity	-10.1	-9.3	-9.7
Growing enterprises			
Assets	58.1	47.5	53.1
Employment	6.2	5.7	5.8
Productivity	16.8	16.5	16.5
Fast-growing enterprises			
Assets	61.0	48.2	56.2
Employment	7.1	5.7	6.6
Productivity	18.0	25.2	20.6

Remark: See Table 23.

In 1991 most firms in Ha Tay operated with exceedingly little capital and with very poor technology. The majority, 52 per cent, did not even have electricity. As a consequence, labour productivity was also low and many enterprises barely managed to provide sufficient income to meet the basic needs of the owner family.[38] The produce was mainly sold locally. Poorly developed markets and rather weak competition made the existence of these enterprises possible. By 1997 the picture had changed dramatically. By then, virtually all enterprises had electricity, and they were substantially stronger in terms of capital and technology.[39] The average asset base of the private and household enterprises surveyed in 1997 in Ha Tay was 331 thousand dong, compared to only 77 thousand dong in 1991.[40] Labour productivity, too, had increased substantially, as had competition. This development was intrinsically linked to the development and integration of markets. By 1997 the enterprises in Ha Tay were much more exposed to competition from urban enterprises and to imports than in 1991, but they also sold their produce further afield. Much of this development took place through the replacement of weak and inefficient enterprises by enterprises which

[38] For details, see Per Ronnås, *Employment Generation through Private Entrepreneurship in Vietnam* (New Delhi: ILO-ARTEP / SIDA, 1992), chapters two and five.
[39] The comparison is between the sample of enterprises surveyed in 1991 and the new representative sample of enterprises surveyed in 1997. Thus, the comparison refers to changes in the population of enterprises as a whole and not to changes over time in individual enterprises. For details, see Hemlin, Ramamurthy and Ronnås, *op. cit.*
[40] Both figures refer to 1997 prices.

tended to be technically and economically stronger. Some 62 per cent of the enterprises covered by the survey in Ha Tay in 1997 had been established after 1990.

This very dynamic external development no doubt goes a very long way to explain the extraordinarily high rates of capital accumulation of the growing enterprises in Ha Tay. In order not only to grow, but to survive, enterprises have had to develop at pace with the rapid changes in the environment in which they operate. Anything less would inevitably result in decline and, sooner or later, closure.

The same link between rapid changes in the overall economic environment and pressure on existing enterprises to develop or succumb to market forces obviously also existed elsewhere. As markets have become more integrated this pressure will have been strongest in the least developed areas. This is born out by the survey results and cast an explanatory light on the higher mortality rates as well as the higher rates of capital accumulation in the north than in the south and in the rural areas than in the urban areas.

The pivotal role of high rates of capital accumulation as a prerequisite for growth is also reflected in the nature of growth. Increases in labour productivity has generally accounted for a higher share of the increase in value added than increases in the employment has. Among the fast growing enterprises, labour productivity increased by more than 20 per cent on average in both rural and urban areas, while employment increased at a much slower rate.

Table 25
Changes in absolute and relative capital intensity of growing urban enterprises between 1990 and 1996.

	Assets/worker (1,000 dong)		Index: 1991=100	Index: All urban enterprises = 100	
	1990	1996		1990	1996
Hanoi	20,048	65,508	327	87	117
Ho Chi Minh City	28,001	45,365	162	123	81
Haiphong	20,570	57,058	277	89	102
Household	17,167	56,223	327	75	101
Private	38,032	55,004	145	165	99
Partnership	18,748	63,639	339	81	114
Co-operative	15,450	51,734	335	67	93
All enterprises	23,025	55,801	242	100	100

Remark: All absolute figures in 1996 prices. Growing enterprises defined as those with an average annual increase in value added produced of more than 2.5 per cent.

Table 26
Changes in absolute and relative capital intensity of growing rural enterprises between 1990 and 1996.

	Assets/worker (1,000 dong)		Index: 1990=100	Index: All rural enterprises = 100	
	1990	1996		1990	1996
Ha Tay	1,569	14,691	937	30	49
Long An	9,889	49,340	499	189	164
Household	4,580	26,301	574	87	88
Private	6,374	36,137	567	122	120
All enterprises	5,244	30,000	572	100	100

Remark: All absolute figures in 1996 prices. Growing enterprises defined as those with an average annual increase in value added produced of more than 2.5 per cent.

In view of the very high rates of capital accumulation among the growing enterprises, it comes as no surprise that growth has been capital rather than labour intensive. The asset base per worker more than doubled from an average 23,025 thousand dong per worker in 1990 to 55,801 thousand dong in 1996 among the urban enterprises growing by more than 2.5 per cent per year (Table 25).[41] The increase was fastest in the two northern cities of Hanoi and Haiphong, which in this regard not only caught up with Ho Chi Minh City, but substantially surpassed it (Table 25). The most remarkable development was registered in Hanoi, where the average capital base per worker increased from 20.0 to 65.5 million dong. In 1990 the capital/labour ratio varied widely between the various ownership forms. Broadly speaking, it was more than twice as high in the private enterprises as in any of the other ownership forms. The low capital/labour ratio in the household enterprises could readily be explained by the small size of these firms and the fact that they relied primarily on both own capital and own labour. The similarly low ratio in the co-operative enterprises was no doubt due to the fact that these enterprises had inherited from their past as “socialist” enterprises a weak economic base as well as an unjustifiably large labour force. By 1996, these differences had by and large disappeared, through remarkable increases in the capital/labour ratio in the household, partnership and co-operative enterprises (Table 25). The outstanding increase in the capital/labour base of the household enterprises is particularly noteworthy, not least in view of the fact that 40 per cent of the household enterprises covered by the survey in 1991 belong to the category of growing enterprises to which the figures refer.

The increase in the capital intensity of the rural enterprises was even more rapid than that of the urban enterprises and as a result, the wide gap in capital intensity between the rural and the urban enterprises registered in 1990 narrowed considerably

[41] All figures are in 1997 prices.

(Table 26). Similarly, and as in the case of the urban enterprises, the gap between the north and the south of the country decreased substantially. In Ha Tay the capital per worker in the growing enterprises – which amounted to a third of the enterprises in this province -- increased almost tenfold from 1.6 million dong to 14.7 million dong between 1990 and 1997. The fact that the asset base in these enterprises was very weak indeed in 1990 does not make this achievement any less impressive. While the prospects for the generally very weak and impoverished enterprises in this province seemed very bleak in 1991, we find that six years later at least a third of them have performed very well indeed to the extent that they have more or less been able to cast their legacy of indigence aside. In the southern province of Long An the increase in the capital/labour ratio has been less remarkable than in Ha Tay, although it has by no means been unimpressive. The less dramatic development in Long An than in Ha Tay should be seen in the light of the fact that the capital base in the former province was much stronger than in the latter in 1990.

In light of the above, it comes as no surprise that growth has mainly been achieved through increased labour productivity rather than through increased employment. In the urban areas, labour productivity increased by an average annual rate of 18 per cent among the growing enterprises and 21 per cent among the fast growing enterprises (Table 23).[42] Among the rural enterprises the corresponding rates of growth were 17 and 21 per cent (Table 24). At the same time, employment increased by 6 - 7 per cent among the growing and 7 - 9 per cent among the fast growing enterprises. However, there were considerable differences between the different types of enterprises. In the urban areas, the rate of employment growth among the growing enterprises was by far highest in the household and private enterprises, where it generally exceeded 10 per cent per year (Table 23). By contrast, even among the fast growing co-operatives employment only increased by a mere two per cent per year on average. In the rural areas, the rate of employment growth among the expansive household and private enterprises was considerably lower than among their urban counterparts and averaged only 6 - 7 per cent (Table 24).

The capital intensive rather than labour intensive nature of the growth is also reflected in rather low employment elasticities of growth (Table 27 - 29). Among the growing urban enterprises, the overall employment elasticity was only 0.17. The wage employment elasticity was slightly higher – 0.21 – reflecting the fact that most incremental employment takes the form of wage employment rather than the use of additional unpaid household labour. The highest employment elasticities were found

[42] Growing enterprises defined as all those growing by more than 2.5 per cent per year and fast growing enterprises defined as those growing by more than 10 per cent per year.

in the household and partnership enterprises, followed by the private enterprises.[43] For the co-operative enterprises it was virtually zero, because of a relative abundance of labour in the co-operative enterprises to start with.

In the rural areas the employment elasticity was slightly higher than in the urban areas; 0.35 for the household and 0.20 for the private enterprises. The rather much higher overall employment elasticity among the rural than among the urban enterprises was primarily due to the absence of growing co-operative enterprises in the rural areas.

Table 27
Employment elasticity of growth by location of enterprise.

	Hanoi	Ho Chi Minh City	Haiphong	Ha Tay	Long An
Growth over 2.5% /year					
- Total employment	0.25	0.13	0.13	0.19	0.26
- Wage employment	0.33	0.22	0.14	0.61	0.91
- Incremental capital/labour ratio (1,000 dong)	88,709	75,179	94,236	38,233	121,204
Decline over 2.5% /year					
- Total employment	-0.25	0.01	0.59	0.72	0.42
- Wage employment	-0.01	0.22	0.79	0.86	0.35

Remark: Calculated as per cent increase divided by percent increase in value added between 1990 and 1996 for each subset of enterprises.

Table 28
Employment elasticity of growth in urban enterprises by ownership form.

	Household	Private	Partnership	Cooperative	All urban
Growth over 2.5% / year					
- Total employment	0.31	0.18	0.38	0.08	0.17
- Wage employment	2.56	0.22	0.41	0.10	0.21
- Incremental capital/labour ratio (1,000 dong)	88,303	73,451	59,136	216,086	89,797
Decline over 2.5% / year					
- Total employment	-0.21	4.00	0.30	-0.48	0.11
- Wage employment	1.79	5.30	0.75	-0.55	0.26

[43] The figure for the partnership enterprises should be interpreted with some caution as the absolute number of enterprises involved was quite small.

Table 29
Employment elasticity of growth in rural enterprises by ownership form.

	Household	Private	All rural
Growth over 2.5% / year			
- Total employment	0.35	0.20	0.24
- Wage employment	3.33	0.48	0.78
- Incremental capital/labour ratio (1,000 dong)	39,042	88,389	64,290
Decline over 2.5 % / year			
- Total employment	0.40	0.73	0.65
- Wage employment	0.28	0.86	0.79

Table 30
Net change in labour force and wage labour force
between 1990 and 1996, by location.

	Hanoi	Ho Chi Minh City	Hai Phong	Ha Tay	Long An
All enterprises					
Labour force					
Decrease	46.2	42.4	42.9	50.0	35.7
Unchanged	5.1	11.9	9.5	10.9	9.5
Increase	48.7	45.7	47.6	39.1	54.8
Wage labour					
Decrease	43.6	32.2	35.7	21.7	28.6
Unchanged	7.7	6.8	16.7	37.0	23.8
Increase	48.7	51.0	47.6	41.3	47.6
Growing enterprises					
Labour force					
Decrease	33.3	21.4	25.0	41.7	10.5
Unchanged	3.7	10.7	8.3	8.3	10.5
Increase	63.0	67.9	66.7	50.0	79.0
Declining enterprises					
Labour force					
Decrease	71.4	69.3	78.6	66.7	64.7
Unchanged	0.0	11.5	7.1	20.0	5.9
Increase	28.6	19.2	14.3	13.3	29.4

Remark: Growing enterprises defined as those with a more than 2.5 per cent annual increase in value added. Declining enterprises refers to those with a more than 2.5 per cent annual decline of value added.

Among the declining enterprises, the employment elasticities, that is the decline in employment relative to the decline in production, present a rather more complex pattern. Generally speaking, they were as high as or higher than the employment elasticity for the growing enterprises, suggesting that enterprises which decline generally also shed labour. The elasticity was particularly high in the rural areas and among the private enterprises.[44] Only among the co-operative enterprises has decline not generally been associated with a reduction in employment.

Table 31
Net change in labour force and wage labour force in urban enterprises between 1990 and 1996 by ownership form.

	Household	Private	Partnership	Co-operative	All urban enterprises
All enterprises					
Labour force:					
Decreased	22.0	46.8	65.4	45.2	43.6
Unchanged	19.4	8.5	3.8	3.2	9.3
Increased	58.6	44.7	30.8	51.6	47.1
Wage labour:					
Decreased	8.3	40.4	53.8	48.4	36.4
Unchanged	19.4	8.5	7.7	3.2	10.0
Increased	72.2	51.1	38.5	48.4	53.6
Growing enterprises					
Labour force					
Decreased	4.3	30.4	41.7	38.1	26.6
Unchanged	13.0	8.7	0.0	4.8	7.6
Increased	82.6	60.9	58.3	57.1	65.8
Declining enterprises					
Labour force					
Decrease	63.6	66.7	100.0	50.0	72,3
Unchanged	18.2	11.1	0.0	0.0	8.5
Increased	18.2	22.2	0.0	50.0	19.2

Remark: Growing enterprises defined as those with a more than 2.5 per cent annual increase in value added. Declining enterprises refers to those with a more than 2.5 per cent annual decline of value added.

Nine out of ten enterprises in both the urban and rural areas either increased or decreased their labour force between 1990 and 1996, while only about ten per cent of the enterprises did not register any change in the size of their labour force (Tables 31 and 32).[45] The proportion of enterprises decreasing respectively increasing their labour force was almost equal; 43 versus 47 per cent. Although growing enterprises had a higher propensity to increase their labour force than the declining enterprises, while the latter were more inclined to decrease their labour force than the former, this link was far from clear cut. Thus, some 28 per cent of the growing urban enterprises actually decreased their labour force, while 63 per cent increased it. Among the declining urban enterprises two thirds reduced their labour force, while 22 per cent

[44] The very high figures for the urban private enterprises are strongly influenced by a very sharp decline of employment in a few enterprises.
[45] The fact that the size of the labour force remained the same in these enterprises clearly does not imply that the same workers remained in the enterprise over the period.

actually increased it (Table 31). The picture in the rural areas was in this regard rather similar to that in the urban areas (Table 32).

The pattern varied substantially between the various ownership forms of enterprises and, to a much lesser extent, between localities. A more detailed examination reveals that between 30 and 42 per cent of the growing private, partnership and co-operative enterprises in the urban areas actually reduced their labour force, while only 57 to 61 per cent increased their labour force. The combination of growth and decrease of the labour force suggests a quite dramatic restructuring of the enterprises in question in the context of increasing wages and a highly competitive environment. This conclusion is supported by the fact that the proportion of growing enterprises shedding labour was lowest in Ho Chi Minh City, were wage increases between 1990 and 1996 were much lower than in the two cities in the north. The growing household enterprises in the urban areas differed markedly from the rest in as much as very few, a mere 4 per cent, of them decreased their labour force, while no less than 83 per cent increased it. The fact that most of these enterprises hired little or no wage labour in 1990 no doubt explain why so few shedded labour.

Table 32
Net change in labour force and wage labour force in rural enterprises between 1990 and 1996, by ownership form.

	Household	Private	All rural enterprises
All enterprises			
Labour force:			
Decrease	40.0	46.3	43.2
Unchanged	17.8	2.4	10.2
Increased	42.2	51.3	46.6
Wage labour:			
Decrease	8.9	41.5	25.0
Unchanged	51.1	7.3	30.7
Increase	40.0	51.2	44.3
Growing enterprises			
Decreased	37.5	11.1	27.9
Unchanged	12.5	5.6	9.3
Increased	50.0	83.3	62.8
Declining enterprises			
Decreased	42.9	83.3	65.6
Unchanged	28.6	0.0	12.5
Increased	28.6	16.7	21.9

Remark: Growing enterprises defined as those with more than 2.5 per cent annual increase in value added. Declining enterprises refers to those with a more than 2.5 per cent annual decline of value added.

In the rural areas it can be seen that the vast majority of the private enterprises (83 per cent) increased their labour force, while only 11 per cent reduced it (Table 32). Among the household enterprises, however, no less than 37.5 per cent reduced their labour force, while only half of them increased it. However, a closer look at those which reduced their labour force reveals that in the majority of cases it involved using fewer unpaid household members in the enterprise and in only two instances did it involve a reduction of wage labour. Seen in this light, the figures are not as surprising, as it can be assumed that a large number of household members working in the enterprise at the beginning of the period may just as well have been due to lack of alternative employment opportunities as to need for labour in the enterprise.

The overwhelming majority of the declining enterprises also reduced their labour force. In the urban areas decline in production also resulted in a decrease of the labour force in 72 per cent of the cases, while in the rural areas 65 per cent of the declining enterprises also reduced their labour force. By contrast, less than 20 per cent of the declining enterprises in the urban areas and 22 per cent of those in the rural areas increased their labour force. The only exception to this rule were the co-operatives where an equal number of the declining enterprises increased and decreased the labour force.

Summary Conclusions and Policy Implications

The non-state manufacturing sector has not only increased numerically, but has also undergone a transformation in the 1990s. Broadly speaking, the units have tended to become larger and more capital intensive. Considering the short time span between the two points of observation, a mere six years, the transformation can be characterised as quite dramatic. The average value added produced increased almost threefold among the enterprises in Hanoi and by almost as much in Ho Chi Minh City. In Ha Tay, the only province for which comparable data are available, the increase was more than fourfold. The growth in production has been accompanied by and achieved through a parallel rapid increase in the capital stock of the enterprises. Thus, the capital intensity of the enterprises has increased, which, in its turn, has been linked to an increase in labour productivity and in wages.

As both the survey in 1991 and the one in 1997 were stratified by ownership form of the enterprises in the same manner, these changes cannot be explained by changes in the ownership structure of the non-state enterprises. Indeed, an analysis by ownership forms shows that an increase in size and capital intensity has characterised both household and private enterprises.

To a certain extent, the increase in assets has been made possible through an increase in debts. However, the general level of indebtedness remains very low and it is clear that the growth in assets has mainly taken the form of an increase in own capital.

The increase in the size, capital intensity and labour productivity has been most pronounced in the areas where enterprises in the past were weakest in this regard. Thus, the previously pronounced gap between enterprises in the north and south and between rural and urban areas has been considerably reduced. Similarly, there has been a remarkable reduction in wage differences. It seems likely that the rapid integration of markets in the 1990s has contributed to this development, as enterprises in traditionally less developed areas have been under particularly strong pressure to restructure and to become more efficient.

The transformation of the non-state manufacturing sector has taken place through two parallel processes. Firstly, through the appearance of new enterprises that are larger, more capital intensive and have a higher labour productivity than existing enterprises, and, secondly, through growth and transformation of existing enterprises.

In order to examine the first of these processes, the enterprises surveyed in 1997 were divided into two age groups; those established prior to 1991 and those established in 1991 or after. A comparison of these two groups shows that the newer enterprises generally are much larger than the older ones. The large difference in average size was found in all locations covered by the survey. In Hanoi, in particular, the newer enterprises were also found to be much more capital intensive and to have a much higher labour productivity. The establishment of increasingly large enterprises has clearly been a main factor behind the general increase in the size of firms.

The increasing size of the newly established firms has been accompanied by a sharp increase in the share of private and limited liability companies and a decrease in the share of co-operatives and partnership firms among the new establishments. However, this change in the ownership structure of new firms can only partly explain the increase in size. It is found that both among the household and the private enterprises the newer firms tend to be larger than the older ones, particularly in the urban areas. The newer household enterprises also tend to be considerably more capital intensive than the older ones, suggesting that the difference between the household enterprises and other types of enterprises in this regard is diminishing. The incidence of debts is higher among the younger firms than among the older, no doubt reflecting an increase in the availability of credits at the time of establishment. While this is a positive development, the rather small magnitude suggests that it can hardly have been a major factor behind the increased size of new enterprises.

There has been a pronounced shift in the type of people who set up enterprises. While in the past most mangers were recruited from the ranks of blue collar workers, managers with a past in managerial, professional or administrative positions predominate in the enterprises established since 1991. The shift has been most pronounced in Hanoi, where two thirds of the managers in the enterprises established since 1991 have come from the ranks of white collar workers, as against only 21 per cent prior to 1991. The tendency towards a higher proportion of enterprises with managers with a professional, managerial or administrative background, underscores that the transformation of the non-state manufacturing sector in the 1990s has not only been towards larger enterprises, but has also entailed a qualitative aspect, requiring managerial skills beyond those obtained at the shop floor.

An examination of the performance in the 1990s of the enterprises surveyed in 1991 shows that the vast majority of the enterprises fall into two distinct categories; those which have grown at a very rapid pace and those which have closed down or suffered pronounced decline. Between a quarter and a third of the enterprises have grown in terms of value added by more than 10 per cent per year, while some 45 - 65 per cent of the enterprises have either closed down or declined by more than 2.5 per cent per year. Less than 15 per cent of the enterprises fall in between these two categories, having stagnated or registered only modest growth.

This distinct polarisation of enterprises into successes and failures is consistent with the impression that the 1990s was a decade of dramatic structural change amid growth. This environment offered great possibilities of growth for those astute and adaptable enough to exploit these opportunities, while it was merciless on the enterprises which failed to adapt and change with times.

An examination of the development of enterprises by location support the impression that these changes were more dramatic in the north than in the south. Thus, Hanoi had a higher proportion of fast growing enterprises as well as a higher mortality rate than Ho Chi Minh City. On the whole, the enterprises in Hanoi stand out as much more dynamic than those in Ho Chi Minh City. The average annual growth rate among the enterprises in Hanoi was 12.5 per cent per year, compared to only 4.6 per cent for those in Ho Chi Minh City.

The highest proportion of fast growing enterprises was found among the household enterprises, both in rural and in urban areas. This is an important and encouraging finding. The small household enterprises are often neglected in the statistics and in policy discussions. Yet, they make up the overwhelming majority of the non-state enterprises. This study shows conclusively that they are not only numerous, but also dynamic. A high proportion of them grow at such a rapid pace that the nature of their operation inevitably change from being household based to becoming dependent on hired labour. In view of the large number of such enterprises, it is clear that they constitute a main source of employment and income generation as well as of growth of production.

Another interesting finding is that quite a few of the co-operatives, particularly in the urban areas, have been successful. Thus, a a fair share of the co-operatives, which as a group are often perceived to be moribund, have apparently managed to adapt to the more market oriented environment and have prospered.

It is primarily the ability to accumulate capital at a very rapid pace that determines the survival and growth of the small-scale manufacturing enterprises. While this link may seem trivial at first, the nature of the link and its implications are not. Firstly, the threshold in terms of capital accumulation for an enterprise to achieve a take-off and grow is very high. In urban areas, even the enterprises growing by a modest 2.5 to 10 per cent per year had an average rate of capital accumulation of 23 per cent, while for the more fast growing enterprises the rate was a staggering 38 per cent. Secondly, as the alternative to rapid growth in most instances is decline and, sooner or later, closure, the ability to achieve very high rates of capital accumulation is not only a precondition for growth, but also for the long term viability of the enterprise. Thirdly, in the virtual absence of access to credits, accumulation of capital has to be self-generated and is therefore tantamount to very high profit margins. In other words, just making ends meet or achieving modest profits is not enough to ensure long term viability of the enterprise. The option of just muddling along does not exist for most enterprises.

The need for high rates of capital accumulation to achieve growth and to survive has been strongest in the north and in the rural areas, that is in the relatively less developed areas. It is in these areas that the rates of capital accumulation among the expanding enterprises as well as the mortality rates have been highest. Similarly, the rate of accumulation needed for growth has been higher for the household enterprises than for other types of enterprises. This pattern is in line with the conclusion that the rapid changes in the overall economic environment exercise strong pressure on existing enterprises to develop or succumb to market forces and that, as a consequence of increasing market integration, the pressure to restructure, improve efficiency and productivity has clearly been strongest in the less developed areas. In places like Hanoi and Ha Tay this pressure has resulted in a dramatic transformation of the surviving enterprises.

The picture of rapid change combined with a pronounced reduction in the differences in size, capital intensity, labour productivity and wages between enterprises of different types and in different areas which emerged from the analysis of the results of the 1991 and 1997 enterprise survey, discussed above, is also reflected in the development of the cohort of enterprises surveyed in 1991. Thus, the very large differences in size, capital intensity and labour productivity revealed in 1991 had, among the surviving enterprises, been substantially reduced by 1997.

In view of the very high rates of capital accumulation among the growing enterprises, it comes as no surprise that growth has been capital rather than labour intensive and that growth has mainly been achieved through increased labour productivity rather than through increased employment. While, the low employment elasticity of growth may be lamented from the point of view of employment generation, it would be wrong to see this as a failure in the development of the non-state manufacturing sector. It should be seen in the light of the fact that most enterprises in 1991, particularly in the north and in the rural areas, were very weak from the point of view of capital endowment, technology and productivity, and that severe doubts were raised about their ability to survive in an increasingly competitive environment. Restructuring, consolidation and increased efficiency and productivity has been and remains a *sine qua non* for the survival and growth of these enterprises. While this results in improved labour productivity and wages, it is not compatible with very labour intensive growth.

A few basic policy conclusions may be drawn from the study, most of which concerns in one way or another the need to promote flexibility.

- The study clearly documents that the establishment of new enterprises and the closure of the less successful existing enterprises is a key component in the overall development and transformation of the non-state manufacturing sector. The establishment of new enterprises has been a main factor behind the growth in size and strength of the enterprises as well as the most important source of employment creation. A main policy conclusion must therefore be to as far as possible remove obstacle of bureaucratic, administrative or other nature to the establishment of new enterprises, as well as to provide a legal and administrative framework for an orderly closure of enterprises. Apart from reviewing and revising existing legislation, it is also very important that authorities concerned in the field assume a truly facilitating rather than obstructive or indifferent attitude to local establishment of enterprises.
- Endogeneous growth of enterprises plays a vital role in the development of the sector has a whole. The growth of the, initially small, household stands out as particularly important and noteworthy. It is important that such growth is as far as possible facilitated and not obstructed by administrative barriers. In this context, there would seem to be a need to review the relevance of the present division of enterprises into different ownership forms and the criteria used for this division,

and, in particular, to ensure that enterprises can change from one ownership form to another with a minimum of bureaucratic hassle. The most urgent issue would seem to be to facilitate for household enterprises to change into 'more advanced' ownership forms, but it is also important to ensure that the procedures for transforming private and co-operative enterprises into limited liability companies are made as easy as possible. The fiscal legislation and policies also need to be reviewed and streamlined to ensure that they do not discriminate against certain types of enterprises or provide disincentives to change the ownership form of an enterprise.

- There is also scope for the government and local authorities to play a pro-active role in promoting flexibility. There is an increasing need for well-functioning and efficient labour market institutions, capable of playing an effective role in the intermediation of labour as well as in providing short term training and re-training of labour. There is also likely to be a need to offer training in rudimentary business administration and entrepreneurship to managers and owners of household enterprises in order to facilitate the growth and development of these enterprises, as the knowledge needed to run a 'larger' enterprise is in many ways different from that needed to run a small household enterprise. A case can also be made for providing consultancy and other services to small scale enterprises locally, particularly in the field of marketing information and more general business intelligence.
- The very high rates of capital accumulation needed to ensure not only growth, but also the long term viability of an enterprise, have implications for the taxation of the enterprises. An obvious conclusion is that profits should not be taxed as long as they are reinvested in the enterprise, but should only be taxed once they withdrawn from the enterprise.
- The study shows that credits play an increasing and positive, but still limited, role for this sector. While there is clearly still a large need and scope for expanding and improving the credit facilities for the non-state manufacturing enterprises, there is a danger in regarding credits as a panacea. As a policy instrument, increased availability of credits has its limits and is only effective as part of a more comprehensive policy package. Accumulated own capital is likely to remain the main source of funding both of the establishment and the growth of enterprises. Firstly, the high mortality rate among new enterprises implies that lending to new small enterprises will inevitably be a high risk business and demand premium interest rates. Secondly, the very high rates of capital accumulation needed for growth cannot be secured on a sustainable basis primarily through credits, but can at best be achieved through a judicious mix of own capital and loans. Rather than

devising schemes for subsidised credits to small scale enterprises, the best long term service to this sector would no doubt be the promotion of the development of an efficient and comprehensive financial sector, which is accessible to small scale enterprises and which offer credits on a strictly non-discriminatory and commercial basis. Removal of all government guarantees for loans taken by state enterprises would, by itself, be a major step in this direction.

- The present study as well as more in-depth studies on successful enterprises and on enterprises that have closed down, based on the cohort of enterprises surveyed in 1991 and in 1997, reveal the extreme difficulty of identifying individual factors determining the success of failure of an enterprise. A main conclusion must be that it would be both futile and counter productive to try to pick 'winners' in advance, either with regard to branches of industry, ownership forms or individual enterprises on the basis of predetermined criteria. This is a strong argument to avoid discriminatory policies which target on pre-selected types of enterprises and, instead, to focus on universally applied policies and measures.
- However, a case can be made for one type of non-universal policies, namely regional policies. The pronounced reduction in the regional differences in enterprise characteristics and performance -- with regard to capital intensity, efficiency, productivity etc. – that has accompanied the overall transformation of the non-state manufacturing sector in the 1990s is obviously a most welcome development. However, it puts the enterprises in the less developed and rural areas under an enormous pressure to restructure and increase their efficiency. The case of Ha Tay clearly shows both the difficulties as well as the potentials and benefits of this process. However, while Ha Tay today stand out as something of a success story, there are obviously many other areas, not covered by the survey, which are in a more disadvantaged position and where the prospects of a successful development are far from certain. A strong case can therefore be made for policy measures designed to facilitate the restructuring, strengthening and overall development of the small scale manufacturing sector in less developed, primarily rural areas, particularly as such policies would work in tandem with an ongoing spontaneous overall development of market integration. While it is beyond the scope of the present study to provide a blueprint for such policies, it should probably include elements such as: improved physical infrastructure, particularly electrification; improved credit facilities and credits earmarked for specific regions, but not for specific branches or types of enterprises; fiscal incentives; assistance with marketing information and provision of other extension services, and; incentives to local authorities to facilitate the development of local enterprises.