

# Economic restructuring and regional distribution of enterprises in Vietnam

著者	Ishizuka Futaba
権利	Copyrights 日本貿易振興機構 (ジェトロ) アジア経済研究所 / Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO) <a href="http://www.ide.go.jp">http://www.ide.go.jp</a>
journal or publication title	IDE Discussion Paper
volume	293
year	2011-03-01
URL	<a href="http://hdl.handle.net/2344/1079">http://hdl.handle.net/2344/1079</a>

IDE Discussion Papers are preliminary materials circulated to stimulate discussions and critical comments

IDE DISCUSSION PAPER No. 293

**Economic Restructuring and  
Regional Distribution of Enterprises  
in Vietnam**

Futaba ISHIZUKA\*

March 2011

**Abstract**

The change in the ownership structure of enterprises was one of the major features of the Vietnamese economy in the 2000s. Of the three sectors of state, private and FDI, the state sector, which employed the majority of enterprise workers at the beginning of the 2000s, became the smallest by the end of the decade. One of the factors contributing to such phenomenon was SOE restructuring. Earlier SOE restructuring in the early 1990s is said to have resulted in increased economic inequality among provinces. The purpose of this paper is to clarify the impact of the SOE restructuring and related changes in the ownership structure of enterprises on the regional distribution of economic activities in the 2000s.

**Keywords:** state owned enterprise, enterprise, Vietnam

**JEL classification:**

---

\* Research Fellow, Law and Institution Studies Group, Development Studies Center, IDE (ishizuka@ide.go.jp)



The Institute of Developing Economies (IDE) is a semigovernmental, nonpartisan, nonprofit research institute, founded in 1958. The Institute merged with the Japan External Trade Organization (JETRO) on July 1, 1998. The Institute conducts basic and comprehensive studies on economic and related affairs in all developing countries and regions, including Asia, the Middle East, Africa, Latin America, Oceania, and Eastern Europe.

---

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute of Developing Economies of any of the views expressed within.

---

**INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO**  
**3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI**  
**CHIBA 261-8545, JAPAN**

©2011 by Institute of Developing Economies, JETRO

No part of this publication may be reproduced without the prior permission of the IDE-JETRO.

# **Economic Restructuring and Regional Distribution of Enterprises in Vietnam**

**Futaba Ishizuka**

## **1. Introduction**

The change in the ownership structure of enterprises was one of the major features of the Vietnamese economy in the 2000s. According to the Establishment Censuses, the shares in the number of enterprise employees in 2002 of the state sector, the domestic private sector, and the foreign-invested sector were 54%, 34%, and 12% respectively. The equivalent figures for 2007 were 24%, 53%, and 23%. According to the annual Statistical Yearbook, in 2008, the number of employees in the foreign-invested sector also exceeded the number of employees in the state sector. Thus, the state sector, which still employed the majority of enterprise workers at the beginning of the 2000s, had become the smallest of the three ownership categories by the end of the decade.

One factor in such a drastic change was the restructuring of state-owned enterprise (SOE) in the 2000s, which resulted in a 43% reduction in the number of SOEs between 2000 and 2008. Vietnam has undergone two major waves of SOE restructuring since the beginning of *doi moi*, one in the early 1990s and one in the 2000s. The SOE restructuring in the early 1990s nearly halved the total number of SOEs, which was reportedly some 12,000 before the restructuring. The overwhelming majority

of the liquidations in this phase of SOE restructuring involved small-scale enterprises under local management (local SOEs, as opposed to central SOEs), which were operating at a loss as a result of the termination of budget subsidies and price liberalization.

Beresford pointed out that the collapse of local state industries contributed to the sharp rise in interprovincial inequality between 1988 and 1993 (Beresford [2003, 67-69]). This is due to the fact that centrally managed industries, which were less affected by SOE restructuring, were heavily concentrated in only a handful of localities, whereas local state industries were more evenly distributed among localities. Regarding other ownership categories, while the geographically dispersed private sector was still insignificant in scale, the emerging foreign-invested sector was also heavily concentrated in a small number of provinces.

How, then, has the SOE restructuring, and related changes in the ownership structure of enterprises, affected the overall pattern of regional distribution of economic activities in the 2000s? Regarding distribution patterns of enterprises of different ownership types, one paper published in the late 2000s observes that “[the private investment] tends to be distributed more widely and evenly than state-owned or foreign investment” (Harvard Vietnam Program [2008,44]), which seems to be basically the same as in the early 1990s. On the other hand, the presence of the domestic private and foreign-invested sectors in the 2000s was much greater than it had been in the beginning of the 1990s. Furthermore, many of the restructured SOEs in the 2000s were not liquidated, but were transformed into joint stock companies, some of which remained as SOEs while others entered the private sector. The outcome of the SOE restructuring in terms of regional distribution of enterprises seems less predictable.

The objective of this paper is simple: to clarify the impact of the SOE restructuring, and associated changes in the ownership structure of enterprises in the 2000s, on the regional distribution of economic activities. The remainder of this paper will be structured as follows. Section 2 will briefly review the argument on the relations between the SOE restructuring in the early 1990s and regional inequality. Section 3 will investigate the distribution patterns of the state, private, and FDI enterprises respectively since the 1990s, with particular focus on those in the 2000s, based on previous studies and data on the number of enterprises. Section 4 will examine different aspects of changes in the distribution patterns of enterprises by utilizing the data from the 2002 and 2007 Establishment Censuses, and Section 5 will summarize the findings.

## **2. Earlier Economic Restructuring and Its Impact on Regional Inequality**

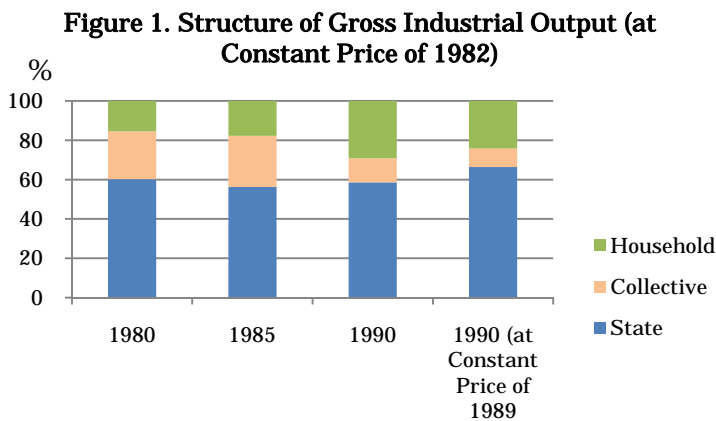
In the 1980s, economic actors were generally divided into state and joint state-private enterprises,<sup>1</sup> collectives, and private and individual establishments. The private sector in that period “largely comprised households engaged in farming, handicrafts and limited retail trade services (van Arkadie and Mallon [2003, 153]), although their combined contribution to the economy was far from negligible. Prior to the 2000s, there were few statistics on enterprises at large. Enterprise statistics were collected independently by each economic sector (such as agriculture, industry, commerce, etc.), and most of the enterprise data available from the annual Statistical Yearbooks are those in industry. Therefore, the rest of this section will primarily focus

---

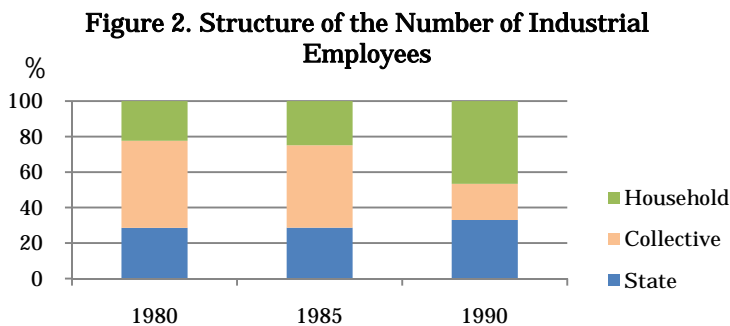
<sup>1</sup> The joint state-private enterprise is an economic unit formed with capital contributed by one or more household heads and the state to conduct joint production or business. In practice, the reorganization of a private enterprise into a joint state-private enterprise was essentially the same as nationalization. (Porter [1993, 44])

on industry.

As of 1980, the respective shares of state (including joint state-private), collective, and household (including private and individual) sectors in the national gross industrial output were respectively 60%, 24%, and 16%. In terms of the shares in industrial employment, the three sectors assumed 29%, 49%, and 22% respectively. Throughout the 1980s, the decline of the collective sector was the most notable change in terms of the above economic structure. On the other hand, the share of the state sector in both industrial output and employment remained relatively unchanged (Figures 1 and 2).



Source: Statistical Yearbook 1985, 1990



Source: Statistical Yearbook 1985, 1990



Within the state sector, between 1980 and 1988, the share of local industrial SOEs expanded somewhat faster than the central industrial SOEs in terms of gross output, number of units, and employment size. This can be at least partly attributed to the impact of the partial economic reform under the New Economic Policy (NEP) in the early 1980s (or local initiatives preceding it, which had essentially the same effect). Local SOEs, which were more oriented towards consumer industry and less dependent on imported inputs, were in a position to better take advantage of enhanced autonomy. The growth in agricultural production led to increased demand for outputs of local industries. The involvement of local trading companies in foreign trade enabled localities to directly procure inputs from abroad, as well as enhance local investment outlays (Beresford [2003], Fforde [2007]). In 1988, there were 681 central and 2,411 local industrial SOEs.

While the Decree 388 of 1991 officially initiated the first large-scale SOE restructuring in Vietnam, the number of local industrial SOEs had already started to decline by the end of the 1980s.<sup>2</sup> Policies to end budget subsidies and liberalize industrial prices in 1989 affected local SOEs more strongly than central SOEs. In 1989, of a total of 4,584 SOEs operating with losses nationwide, about 90% were small-scale local SOEs (Tran Hoang Kim and Le Thu [1992, 64-65]). Those targeted for restructuring under Decree 388 were precisely such loss-making, commercially unviable SOEs. As a result of the restructuring, there were 522 central and 1,508 local industrial

---

<sup>2</sup> Van Arkadie and Mallon [2003, 126] note that the decentralization of the authority to establish state enterprises under Decree 217-HDBT in late 1987 led to a proliferation of new state enterprise registrations, particularly at the local level. In industry, however, this trend cannot be confirmed, at least from the data in the Statistical Yearbooks. It is possible that a large part of newly-established SOEs were in the trade sector. According to Beresford and Dang Phong [2000, 49-50], a series of reform measures adopted in the late 1980s provided the major impetus to the upsurge in formation of local (state) trading enterprises.

SOEs remaining in 1993.

Beresford [2003] argues that the contraction of the local state sector was one of the factors behind the sharp rise in provincial income inequality between 1988 and 1993. According to her analysis, there was some convergence in provincial income between 1981 and 1987, but this convergence was dramatically reversed after the major reform of 1988-1989. While examining the causal relationship between the economic restructuring and provincial income inequality is beyond the capacity of the author of this paper, of interest here is the relationship between the SOE restructuring and changes in the pattern of its geographic distribution. Beresford [2003] states that local SOEs were more evenly distributed among the provinces compared with central SOEs, and the restructuring contributed to the widening of gaps between provinces in terms of per capita gross value of industrial output.

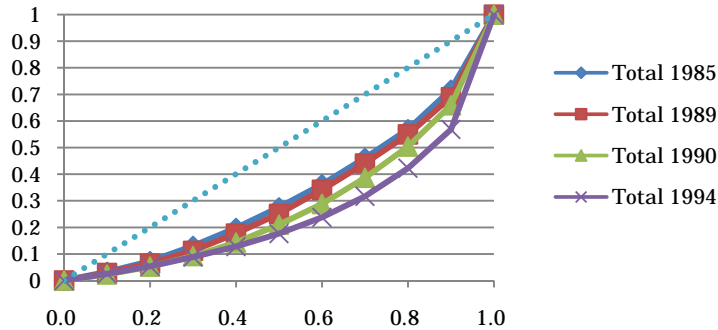
Data on the number of industrial SOEs confirms that the geographic concentration of industrial SOEs actually progressed between 1989 and 1994 (Figure 3).<sup>3</sup> It is also apparent that central SOEs are geographically more concentrated than local SOEs (Figure 4). Between 1990 and 1994, both central and local SOEs came to be distributed more unevenly,<sup>4</sup> which, together with the greater reduction in the number of local SOEs, resulted in increased inequality between provinces in terms of the number of SOEs.

---

<sup>3</sup> Data on provincial distribution of industrial workers is not available.

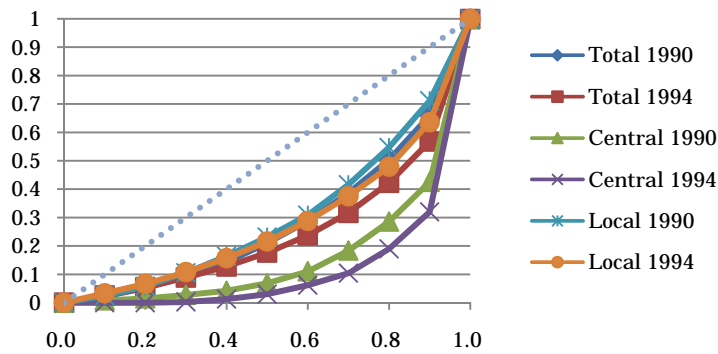
<sup>4</sup> Although the scale of reduction was much smaller for central SOEs than for local SOEs, distribution pattern changes were more significant for the former, as the reduction mostly fell on provinces that had originally had few central SOEs.

**Figure 3. Cumulative Distribution of the Number of Industrial SOEs by Province, 1985 to 1994**



Source: Prepared by author based on Statistical Yearbook (various years)

**Figure 4. Cumulative Distribution of the Number of Industrial SOEs by Province, 1990 and 1994**

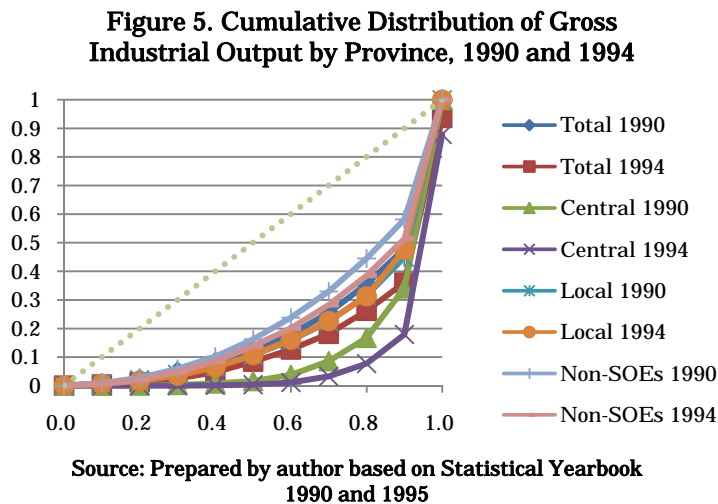


Source: Prepared by author based on Statistical Yearbook 1990, 1995

Let us also look at the pattern of provincial distribution of gross industrial output between 1990 and 1994 (Figure 5). Again, change in the distribution pattern of gross industrial output by central SOEs, among others, seems to have affected the overall geographic distribution of gross industrial output. Within this period, the share of central SOEs in the gross industrial output increased from 46% to 52%. This expansion of SOE share as well as the increased regional disparities in industrial output is at least partly attributed to the inclusion of FDI in the data on SOEs.<sup>5</sup> The

<sup>5</sup> Most FDI in the early period took the form of joint venture with SOEs, and were thus

distribution of industrial output by the non-state sector was actually more even than that of central or local SOEs, although the level of inequality increased as well in this sector.



### 3. Distribution Pattern of Enterprises since the Mid-1990s

#### 3.1. State-Owned Enterprises (SOEs)

After the first wave of SOE restructuring, although government leaders repeatedly mentioned the need for further streamlining of the state sector, the number of SOEs was relatively stable by the late 1990s. According to the Enterprise Census (GSO [2002]), as of the end of 2000 there were 1,877 central SOEs and 3,654 local SOEs nationwide: that is, approximately 31 and 60, respectively, per province.<sup>6</sup>

Actual distribution of SOEs was highly uneven. Regarding central SOEs, Ha Noi hosted by far the largest number of enterprises (535), nearly twice as many as those

---

included in the category of SOEs in official statistics. At the end of 1993, 87% of total foreign capital was located in just six provinces, including HCMC and its three neighboring provinces, Hanoi and Hai Phong (Beresford [2003, 68]).

<sup>6</sup> The number of provinces in Vietnam was 61 in 2000, increased to 64 in 2003, and became 63 in 2008.

in Ho Chi Minh City, which ranked second (281). There were no other provinces with more than 100 central SOEs. Together, these two cities hosted 43% of all central SOEs. On the other side of the spectrum, 17 provinces hosted fewer than 10 central SOEs, and 47 provinces fewer than 20. Local SOEs were also distributed unevenly, but to a lesser extent. The number of local SOEs per province ranged from 16 (Binh Phuoc) to 303 (Ho Chi Minh City). Those located in Ho Chi Minh City and Ha Noi assume about 15% of the total local SOEs. Eight provinces had over 100 local SOEs, while only 2 had fewer than 20.

The SOE sector underwent a second wave of restructuring in the 2000s. There were two major criteria for determining how an SOE should be restructured: the type of economic activity, and the size of the enterprise (Ishizuka [2009]). Those SOEs that fell in the category of public service enterprises or large-scale enterprises in strategic industries were exempted from de-nationalization. Of the rest, those that were commercially viable were to be equitized, with the state retaining no or minority shares. Again, local SOEs were affected more than central SOEs, because of their generally smaller size. As of the end of 2008, the total number of SOEs was 3,287, of which central and local SOEs numbered almost the same (1,630 central and 1,657 local). The number of SOE employees in 2008 was 1.6 million, 22% fewer than in 2000.

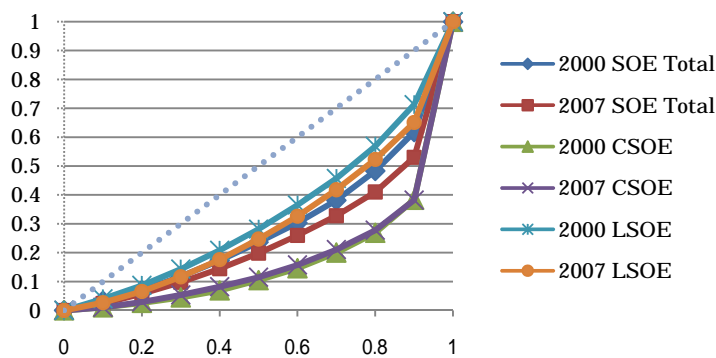
How, then, has the restructuring affected the geographical distribution of SOEs? Figure 6 shows that the distribution of central SOEs has not changed much, while the level of concentration of local SOEs has increased between 2000 and 2007.<sup>7</sup>

---

<sup>7</sup> CIEM [2010] was used for the 2007 data because it was the sole source of disaggregated figures for central and local SOEs by province. According to CIEM [2010], the total number of central and local SOEs as of July 1, 2007 was 1,812 and 1,866, respectively. There are some discrepancies between CIEM [2010] and published results of the Establishment Census by the General Statistical Office. This is most evident in data on the SOE sector: for instance, the total number of SOE sector employees in 2007

This could be explained by the fact that large-scale local SOEs are concentrated in a small number of provinces.<sup>8</sup> As a result, and also as the share of local SOEs in the total number of SOEs decreased, the level of concentration of total SOEs increased.

**Figure 6. Cumulative Distribution of the number of SOEs by province, 2000 and 2007**



Source: Prepared by author based on GSO [2002], CIEM [2010]

It is worth noting that the statistical unit used in the Enterprise Census is the enterprise, meaning that data on an enterprise’s subsidiary units is not dealt with independently. If we focus on establishments rather than enterprises, the level of unevenness may be somewhat less than it first appeared. The SOEs providing public utilities, such as electricity and telecommunications, should have field operations throughout the country. Manufacturing SOEs may also have their factories in rural areas, as a result of their own business strategy, or because of certain requirements from “the superior level.”<sup>9</sup> On the other hand, a comparison of the number of employees rather

---

was 1.4 million in CIEM [2010] and 1.7 million in GSO [2008].

<sup>8</sup> Of the 29 large local SOEs in the mid-2000s, 11 belonged to Ho Chi Minh City, 5 to Ha Noi, 3 to Binh Duong, and 2 to Dong Nai (Ishizuka [2009, 21-22]).

<sup>9</sup> SOEs are sometimes used as tools by government agencies to achieve goals such as employment creation and rural development in underdeveloped regions.

than the number of enterprises (or establishments) may amplify the differences between large cities and remote provinces, assuming that the average size of an enterprise (or establishment) is generally larger in the former. In the analysis of Section 4, we will examine the data at the establishment level, using both the number of establishments and the number of employees.

### **3.2. Private Enterprises**

“Private sector” in a broad sense refers to both corporate private sector (“private enterprises”) and household operations (“individual business establishments”). The primary focus of this section is the former. In this paper, the term “private enterprises” is used more or less interchangeably with “non-state enterprises.” In Vietnamese statistics non-state enterprises include six types of enterprises: collective; private; collective name; limited corporation; joint stock corporation possessing state capital; and joint stock corporation without state capital.

In the *doi moi* era, private enterprises were officially recognized as a sector in Vietnam’s multi-sector market economy. General restrictions on private enterprises, in terms of their size and area of business, had been removed in principle by the early 1990s. In practice, however, the corporate private sector in Vietnam was slow to develop during the 1990s. A survey conducted in 1998 found that, as of the end of 1998, about 26,000 private companies were in operation in the whole nation, with an average of 19 employees each (Webster and Taussig [1999]).

Vietnam’s domestic private sector started to take off only after the 1999 Enterprise Law came into effect. The main thrust of the new law was to simplify procedures for establishing businesses. This had the effect of reducing involved

government officials' discretion, thus cutting time and costs for entrepreneurs. The country's move towards greater international economic integration has entailed the gradual removal of privileges enjoyed by SOEs, which also led to improvements in the business environment for private enterprises. Between 2000 and 2008, the number of private enterprises increased 5.6 times, reaching a total of 196,776 in 2008. Within the same period, the number of employees of private enterprises also increased 4.5 times to nearly 4.7 million.

Some authors have emphasized that private enterprises are relatively evenly distributed among regions. Van Arkadie and Mallon [2003, 168-169] noted "some indication of more equal regional distribution of newly established enterprises" in the early days of the implementation of the 1999 Enterprise Law. According to them, during the period 1991-1998, some 72% of all enterprises were established in the southern provinces (as opposed to northern and central provinces), whereas the southern share of newly registered enterprises fell to 56% in the first 5 months of 2001.<sup>10</sup> Harvard Vietnam Program [2008] argues that private investment tends to be distributed more widely and evenly than state-owned or foreign-invested sectors. They reason that private firms respond more quickly to local opportunities than their state or foreign counterparts because local people are more familiar with opportunities in their own towns and villages, and also because many of these opportunities are too small to interest larger state or foreign enterprises.

In contrast, some studies are focusing instead on the uneven pace of private sector development among provinces (CIEM [2003], Nguyen Thi Canh et al. [2004], Malesky [2005, 2006, 2007, 2008, 2009], WB [2005]: see Ishizuka [2010] for a

---

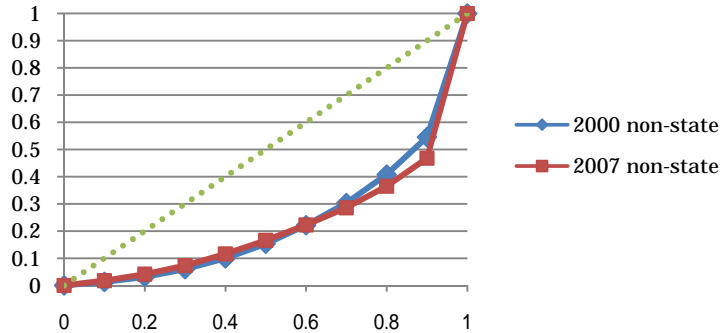
<sup>10</sup> They also admitted, however, that most new business registrations continued to be concentrated in the major cities.



summary of these discussions). They attempted to explain differences in provincial performance by differences in local business environment, in not only physical but also policy and institutional terms. For instance, Nguyen Thi Canh et al. [2004] conducted a survey on investment decisions of private enterprises in three localities. Their results showed that, of the 14 possible factors influencing enterprises' investment decisions, "good infrastructure" and "good human resources" were the two highest-scoring factors, followed by "access to raw materials and intermediate goods"; "access to domestic markets"; "local regulations and laws"; and "treatment by local government officials." In contrast, "investment location is simply my place of origin/residence" was the lowest-ranking of the 14 factors. That private investment is indeed mobile is confirmed by another recent survey. Taussig [2009] found "moving locations" was one of the three main strategies adopted by his sample enterprises, which were survivors of the 95 leading private manufacturers in the late 1990s. In his survey, cutting labor costs was a main reason for location change by these enterprises.

Statistical data shows that the overall distribution pattern of private enterprises between provinces did not change substantially between 2000 and 2007, except that their concentration increased in large cities (Figure 7). Indeed, private enterprises seem to be distributed more unevenly than SOEs. In terms of the level of concentration in the two largest cities of Ho Chi Minh City and Ha Noi, 42% of all private enterprises in 2007 were located in these two cities, whereas the equivalent figure for 2000 is 34%. These figures are even higher than those of SOEs, which are 35% in 2007 and 25% in 2000.

**Figure 7. Cumulative Distribution of the Number of Non-state Enterprises by Province, 2000 and 2007**



Source: Prepared by author based on GSO [2002], CIEM [2010]

This raises further questions. What if we focus on the district, not provincial, level?<sup>11</sup> The province may be too large a unit of analysis. Within a province, private enterprises could be distributed more widely than SOEs. Secondly, a focus on the number of employees rather than the number of enterprises may give some rough indications of the orientation of relatively large-scale private enterprises; i.e., whether they are more oriented towards regions with good infrastructure, or regions with lower labor costs. These issues will also be treated in Section 4.

### 3.3. Foreign Invested Enterprises (FIEs)

The first Law on Foreign Investment of Vietnam was passed in 1987. Between 1988 and 2008, Vietnam licensed 11,367 FDI projects with a total registered capital of US\$171 billion, of which US\$57 billion had been implemented. There have been ups and downs in the volume of FDI inflow over time. The amount of registered capital surged in the first half of the 1990s until it reached a peak in 1996, then dropped until 1999 and did not start to pick up again until 2004. The level of implemented

<sup>11</sup> The number of districts has been constantly increasing. In the Statistical Yearbook 2000, the number of districts was 622; in the 2009 edition, the number was 697.

capital has been more stable, standing at around US\$2-3 billion per year between the mid-1990s and mid-2000s, while it also started to rise in recent years. As of the end of 2008, there were a total of 5,626 foreign invested enterprises (FIEs) in Vietnam, an increase of 3.7 times from 2000. The number of FIE employees increased even faster: the FDI sector in 2008 employed 4.5 times more labor than in 2000 (over 1.8 million).

As pointed out earlier, the spatial distribution of FDI has been highly uneven since the initial days. Le [2008] shows maps on the provincial distribution of cumulative FDI stock of disbursed FDI for 1995, 1999, and 2003. By doing so, she demonstrates that the magnitude of FDI concentration is far beyond the level of income disparities between provinces. Another feature that stands out from these maps is that areas of FDI concentration spread out over time. While Ho Chi Minh City and Ha Noi are two centers of FDI concentration, there is also a wide gap between the two areas: the combined share of the four southern provinces (including Ho Chi Minh City, Dong Nai, Ba Ria-Vung Tau, and Binh Duong) in the total registered FDI capital licensed in the period 1988-2003 was 54%, whereas the combined share of Ha Noi and Hai Phong in the north was 22%.

Some analyses have found increasing interest in north Vietnam among foreign investors in the 2000s. According to a report on Japanese FDI in Vietnam, some 90% of Japanese FDI capital in 2001 was directed to the north, due mainly to the recent development of high-quality industrial zones in and around Ha Noi (Seki and Ikebe [2006]). A *Time* article titled “Waking Up the North” (23 April 2006) noted that Ha Noi overtook Ho Chi Minh City in the FDI registration for the first time in 2005, and that numerous foreign manufacturers had set up shop in the capital in the past five years. In order to explain “investors’ newfound interest in north Vietnam,” it listed advantages of

the north over the south, such as lower wages; cheaper real estate; a less-clogged port; and its proximity to China, Vietnam's largest trading partner.

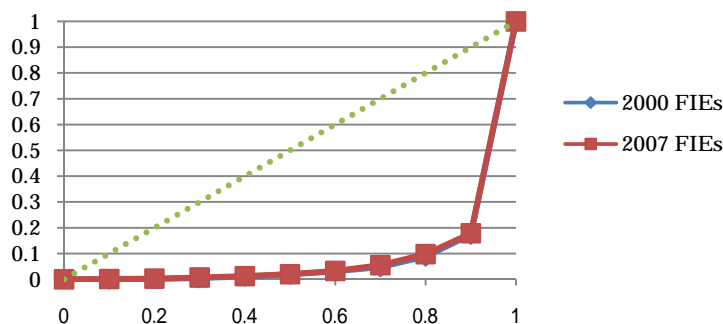
The catching up of the north, however, is not yet clear from the data on newly licensed FDI projects. The above four provinces in the south certainly reduced their share in the total registered FDI capital licensed in 1988-2007 to 50%, but the two northern cities fared no better (reducing their share to 18%). Some provinces around Ha Noi, such as Vinh Phuc and Bac Ninh, have also come to attract greater portion of incoming FDI, but even if one compares the share of the Red River Delta region as a whole, the situation is not much different. Rather, it is central Vietnam that has significantly increased its share in the total registered FDI capital in recent years. Since 2008, some large-scale projects have been approved in the central region, which is reflected in the surge of this region's share in the total registered FDI capital.<sup>12</sup>

The cumulative distribution of the number of FIEs confirms a highly uneven spatial distribution of FDI (Figure 8). The distribution pattern is nearly identical for 2000 and 2007.

---

<sup>12</sup> The North Central and Central Coastal Areas, which is composed of 14 provinces, assumed 11% in the total registered FDI capital licensed in 1988-2007; the region's share in the total registered FDI capital licensed in 1988-2008 jumped to 27%.

**Figure 8. Cumulative Distribution of the Number of Foreign Invested Enterprises by Province, 2000 and 2007**



Source: Prepared by author based on GSO [2002], CIEM [2010]

As mentioned above, in the 2000s, the growth of employment in the FDI sector was larger than the growth of the number of FIEs. The increase in FDI employment can be associated with the recent increase of FDI in labor-intensive manufacturing sectors.<sup>13</sup> It would also be of interest to examine the distribution pattern of FDI employment, to see whether increase in FDI in manufacturing is linked with more even or uneven regional distribution of FDI employment.

#### 4. Distribution Pattern of Business Establishments

The analysis of provincial distribution of the number of enterprises in the 2000s in the previous sections shows that the distribution of SOEs changed most significantly toward greater concentration compared with private enterprises and FIEs. Private enterprises were rather unevenly distributed, contrary to some observations.

<sup>13</sup> Up to 50% of the total registered FDI capital licensed in the 1988-2008 period was in the manufacturing sector. In the 1988-2000 period, the category “industry,” excluding oil and gas, assumed 30% of the total registered FDI capital.

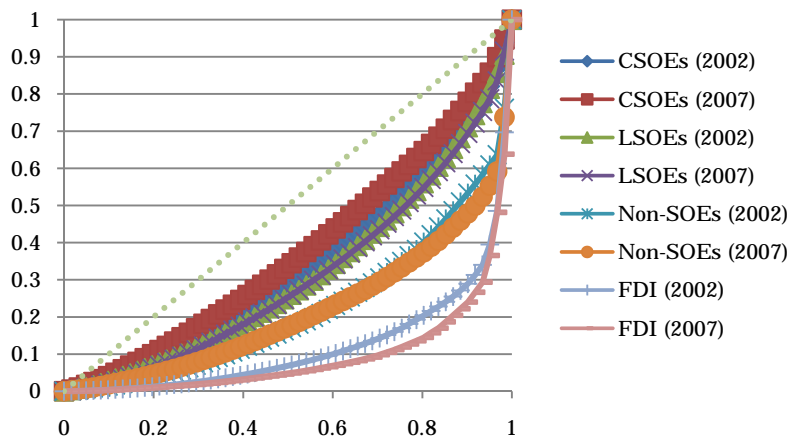
FIEs' distribution pattern seems to have changed little, despite its dynamic growth and changes in its sectoral composition.

This section will further examine the issue by utilizing data from the Establishment Censuses (CIEM [2010]). The Establishment Census in Vietnam has been conducted every 5 years since 2002. An establishment is a unit in which a single economic activity takes place in a single location, whereas an enterprise is a unit that keeps an independent business account and acquires its own legal status. An enterprise may control several types of economic activities in several locations. Thus, for the purpose of measuring the regional distribution of economic activities, an establishment is thought to be a more appropriate statistical unit. The Establishment Census of Vietnam covers not only establishments belonging to enterprises, but also "individual business establishments." The latter are excluded from this paper's analysis unless otherwise stated.

Figure 9 compares the distribution pattern of business establishments of different ownership types, and its changes between 2002 and 2007. Of the four different groups of business establishments, the most evenly distributed among provinces were those belonging to central SOEs. Central SOEs include enterprises providing public utilities, such as electricity and telecommunications, and such enterprises are likely to have a broad network of subsidiary units all over the country. The 2002 Establishment Census found a total of 43,654 subsidiaries belonging to 56,372 enterprises: 40% of the subsidiaries belonged to central SOEs and 30% to local SOEs. The 2007 Establishment Census, on the other hand, recorded 51,217 subsidiaries belonging to 133,382 enterprises. While the share of those belonging to central SOEs decreased slightly to 37%, SOEs increased in terms of actual number. In contrast, subsidiaries of local SOEs

actually shrank to less than one-third, which is another indication of the impact of SOE restructuring on the local SOEs.

**Figure 9. Cumulative Distribution of the Number of Business Establishments by Province, 2002 and 2007**



Source: Prepared by author based on CIEM [2010]

Between 2002 and 2007, the distribution of central SOE establishments became more even, unlike other groups. This can be explained by the aforementioned policy of exempting public utilities and large-scale SOEs from privatization. The distribution pattern of local SOE establishments, on the other hand, did not change much. As a result, establishments belonging to the SOE sector were more evenly distributed among provinces in 2007 than in 2002, in contrast to the distribution of state sector “enterprises”.

Given the substantial variation in the size of enterprises, however, it would be more appropriate to use data on the number of employees, rather than the number of establishments, in order to examine the regional distribution of different types of enterprises and the impact of SOE reform on the distribution of business establishments

at large. Figure 10 shows that, in terms of the distribution of employees among provinces, local SOEs are the most evenly distributed among the four types of ownership, and that the distribution pattern of local SOE employees became less even between 2002 and 2007, as did the distribution of the number of enterprises. Overall, the distribution pattern of employees seems closer to that of the number of enterprises. One difference is that, for both the non-SOE and FDI sectors, employee distribution became slightly less uneven between 2000 and 2007, in contrast to the distribution of the number of enterprises. This may reflect, at least in part, a greater orientation among some manufacturers toward regions with lower labor costs, as suggested in earlier sections.<sup>14</sup> In practice, employee distribution in the manufacturing sector shows a similar trend of less uneven distribution in 2007, in both the non-SOE and FDI sectors<sup>15</sup>.

What can we say about the possible impact of SOE restructuring on the overall distribution of business establishments, as measured by the number of employees? Figure 11 indicates that the distribution of SOEs (central and local combined) became slightly more uneven between 2002 and 2007. The distribution of business establishments at large also showed a slightly greater inequality between provinces in 2007. Given that the non-SOE and FDI sectors are demonstrating an opposite trend, we can assume that the slight increase in unevenness in the provincial distribution of SOE employees, together with the decline of the SOE sector's share in the total number of enterprise employees, contributed to this result.

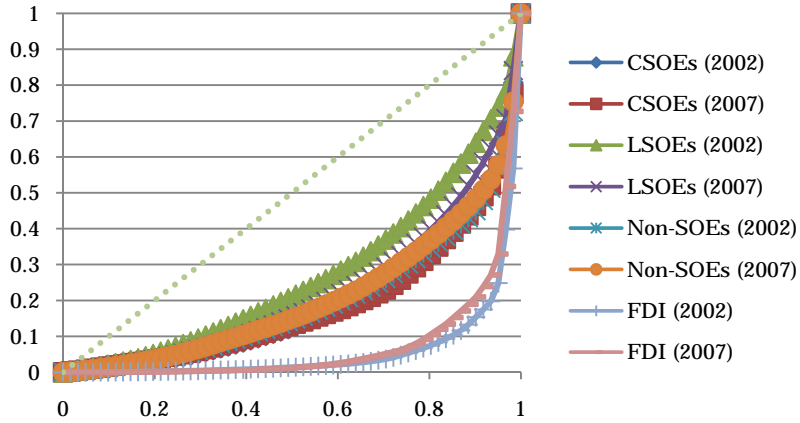
---

<sup>14</sup> Hamaguchi et al. [2011] also found that industries with domestic market orientation have a tendency to disperse geographically.

<sup>15</sup> In 2007, manufacturing assumed 47% and 91% of total employment in the private and FDI sectors, respectively.

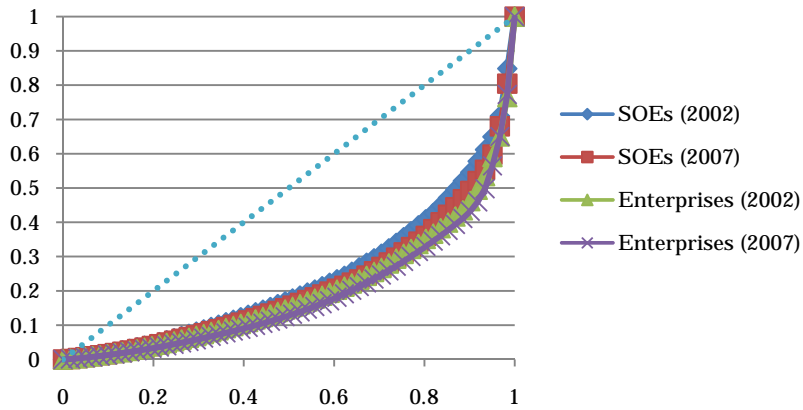


**Figure 10. Cumulative Distribution of the Number of Employees of Business Establishments by Province, 2002 and 2007 (1)**



Source: Prepared by author based on CIEM [2010]

**Figure 11. Cumulative Distribution of the Number of Employees of Business Establishments by Province, 2002 and 2007 (2)**

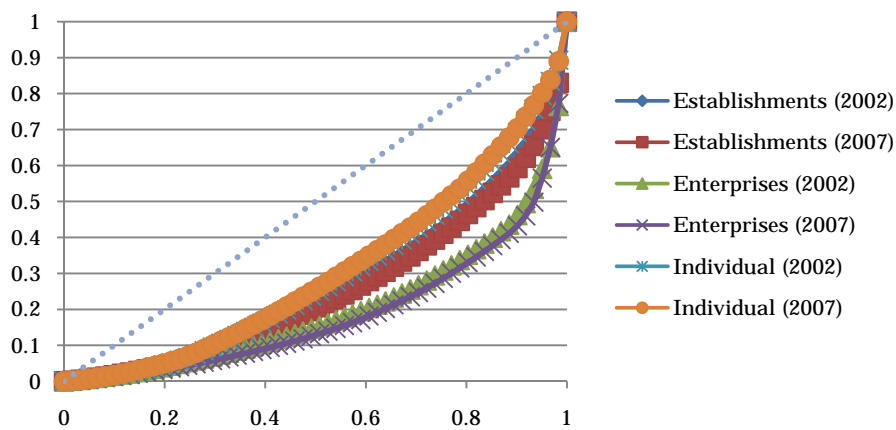


Source: Prepared by author based on CIEM [2010]

Such patterns can also be observed in the distribution of enterprise employees among districts, although the overall level of unevenness is greater than at the provincial level. This means that, even at the district level, the distribution of the

corporate private sector is no less uneven than that of SOEs. The SOE restructuring seems to have led to a convergence between the two curves at the provincial level, and a reversal at the district level.<sup>16</sup> It is worth noting that, if individual business establishments are included in the private sector, its geographical distribution will certainly become much more even, both at the provincial and district level. Actually, the inclusion of individual business establishments would affect not only the location pattern of the private sector, but also that of the entire business establishments. The number of employees of individual business establishments was 4.4 million in 2002 and 6.6 million in 2007, 116% and 93% of the total number of enterprise employees respectively. Figure 12 demonstrates the magnitude of this impact at the province level.

**Figure 12. Cumulative Distribution of the Number of Employees of Business Establishments by Province, 2002 and 2007 (3)**

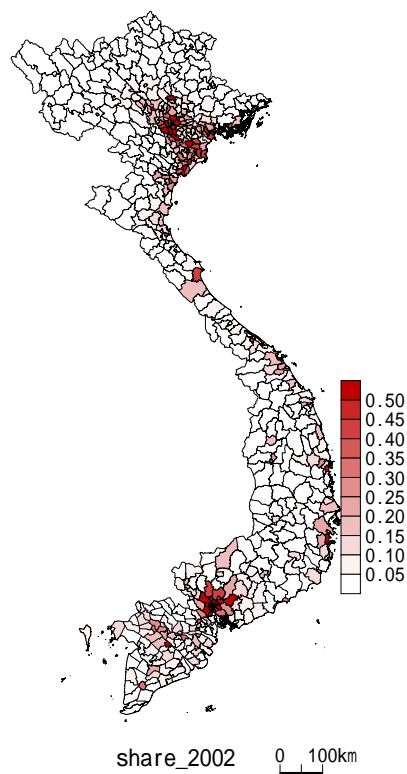


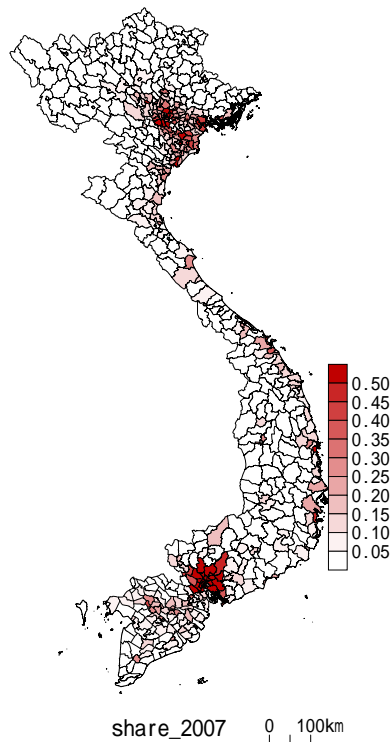
Source: Prepared by author based on CIEM [2010]  
 Note: Establishments include both enterprises and individual business establishments.

<sup>16</sup> The privatization of SOEs is probably contributing to this phenomenon, but only in part, given that the increase in private employment far exceeds the decrease in SOE employment.

Overall, the distribution patterns of businesses do not seem to have changed significantly between 2002 and 2007. The maps showing the share of each district in the total number of business establishment employees can also confirm this. Figure 13 shows the share of each district in manufacturing employment, including both enterprises and individual business establishments, in 2002 and 2007.

**Figure 13. Geographic Distribution of Manufacturing Employment, 2002 and 2007**





Source: Prepared by author based on CIEM [2010]

## 5. Concluding Remarks

As the data on business establishments is limited, this paper was only able to compare their distribution patterns in 2002 and 2007. Although five years is a short period, 2002-2007 was an important one in that the ownership structure of Vietnamese enterprises changed drastically within this period. The SOE restructuring did leave its mark on the distribution pattern of business activities. The SOE restructuring in the 2000s, like that of the early 1990s, resulted not only in a reduction in size of the SOE sector, but also in greater inequality between localities (both at the provincial and district level) in terms of the distribution of SOE employees. This also led to an increased inequality in terms of the distribution of business establishment employees as a whole.

Regarding the distribution pattern of different types of enterprises, the corporate private sector has been no less unevenly distributed than SOEs, at least until recently. The observation that the private sector is distributed more evenly than the state sector is valid only when individual business establishments are included in the former. In both 2002 and 2007, central SOEs were the most evenly distributed of all types of enterprises in terms of the number of establishments, both at the provincial and district levels. Local SOEs in 2002 were the most evenly distributed of all types of enterprises in terms of the number of employees at both the provincial and district levels, although they became less evenly distributed than private enterprises at the district level in 2007. The distribution of employees of both the private and FDI sectors became somewhat less uneven between 2002 and 2007, which may be linked to a tendency toward greater dispersion in some manufacturing industries.

This paper used official statistical data categorized by the legal form of enterprises. In these statistics, the state sector is shown as rapidly losing ground and becoming a minor player in the economy. In reality, however, the relationship between the state and the private sector is highly complex. Tran Ngoc Angie [2004] notes the “symbiotic relationships between state and non-state actors” in the textile and garment industry, and warns against the view that frames state and non-state sectors simply as competitors. Gainsborough [2010] observes the close relations between private sector companies and the state, in both big cities like Ho Chi Minh City and border provinces such as Lao Cai and Tay Ninh: “that is, private companies have state institutions or officials as shareholders; the people running private companies are often former officials; and nominally private companies are still operating with a considerable degree of state involvement.” (Gainsborough [2010, 147]) The already unclear dividing line

between the state and private sectors has been made even more obscure by the progress of equitization.

Differences in state-private sector configurations are likely to affect the pattern of private sector development in localities. In that sense, even today, the state's role in shaping economic geography in Vietnam may be greater than statistics suggest. The assessment of the state sector's historical role needs to take such aspects into consideration.

#### **References:**

Beresford, Melanie [2003] "Economic Transition, Uneven Development, and the Impact of Reform on Regional Inequality," Chapter 2, Hy V. Luong ed. *Postwar Vietnam: Dynamics of a Transforming Society*, Rowman & Littlefield Publishers, Inc.

Beresford, Melanie and Dang Phong [2000] *Economic Transition in Vietnam*, Edward Elgar.

Central Institute for Economic Management (CIEM) [2003] "Comparative Provincial Performance in Private Business Development: Some Preliminary Observations from Nine Provincial Case Studies," United Nations Development Programme.

————— [2010] "Data from the 2002 and 2007 Establishment Censuses of Vietnam" (Part of the Results of the Contract Research on Collecting Data on Industrial Location in Vietnam), unpublished.

Fforde, Adam [2007] *Vietnamese State Industry and the Political Economy of Commercial Renaissance*, Chandos Publishing.

Gainsborough, Martin [2010] *Vietnam: Rethinking the State*, Silkworm Books.

General Statistics Office (GSO) [2002] *Ket qua Dieu tra Toan bo Doanh nghiep 1-4-2001 (The Results of the Enterprise Census at 1<sup>st</sup> April 2001)*, Ha Noi: Statistical Publishing House.

—————[2008] *Ket qua Tong dieu tra Co so Kinh te, Hanh chinh, Su nghiep 2007 (Results of the 2007 Establishment Census)*, Volume 2, Ha Noi: Statistical Publishing House.

Hamaguchi, Nobuaki, Futaba Ishizuka and Shozo Sakata [2011] “Liberalization, Integration and Industrial Location in Vietnam,” unpublished.

Harvard Vietnam Program [2008] “Choosing Success: The Lessons of East and Southeast Asia and Vietnam’s Future: A Policy Framework for Vietnam’s Socioeconomic Development, 2011-2020,” Harvard University.

Ishizuka, Futaba [2009] “Vietnamese Local State-owned Enterprises (SOEs) at the Crossroads: Implications of SOE restructuring at the Local Level,” IDE Discussion Paper No.193, Institute of Developing Economies.

—————[2010] “Economic Integration and Changes in Industrial Location in Vietnam,” Chapter 6, Ikuo Kuroiwa ed., *Spatial Statistics and Industrial Location in CLMV: An Interim Report*, Institute of Developing Economies.

Le, Thuy Le [2008] *Determinants of Foreign Direct Investment at Provincial Level in Vietnam*, VDM Verlag Dr. Muller.

Malesky, Edmund [2005, 2006, 2007, 2008, 2009] “The Vietnam Provincial Competitiveness Index (2005, 2006, 2007, 2008, 2009): Measuring Economic Governance for Private Sector Development,” VNCI Policy Paper, Vietnam Competitiveness Initiative.

Nguyen Thi Canh, Hoang Tho Phu, Cung Tran Viet, Nick J. Freeman, and David Ray [2004] “An Empirical Study of Corporate Income Tax Investment Incentives for Domestic Companies in Vietnam,” USAID.

Seki, Mitsuhiro and Ikebe Ryo [2004] *Betonamu: shijo keizaika to nihon kigyo*

*(Vietnam: Transformation to a Market Economy and Japanese Enterprises)*,  
Shinhyoron (in Japanese).

Taussig, Markus [2009] “Business Strategy during Radical Economic Transition: Viet Nam’s First Generation of Larger Private Manufacturers and a Decade of Intensifying Opportunities and Competition,” Policy Discussion Paper, United Nations Development Programme Viet Nam.

Tran Hoang Kim and Le Thu [1992] *Cac thanh phan kinh te Viet Nam: Thuc trang, xu the va giai phap / Economic Sectors in Vietnam: Situation, Tendency and Solutions*, Hanoi: Nha xuất bản thống kê.

Tran Ngoc Angie [2004] “Linking Growth with Equity? The Vietnamese Textile and Garment Industries since Doi Moi,” Chapter 5, Melanie Beresford and Tran Ngoc Angie eds. *Reaching for the Dream: Challenges of Sustainable Development in Vietnam*, NIAS Press, Nordic Institute of Asian Studies.

Van Arkadie, Brian and Raymond Mallon [2003] *Viet Nam – a transition tiger*, Asia Pacific Press at The Australian National University.

Webster, Leila and Markus Taussig [1999] “Vietnam’s Undersized Engine: A Survey of 95 Larger Private Manufacturers,” Private Sector Discussions No. 8, Mekong Project Development Facility.

World Bank (WB) [2005] *Vietnam Development Report 2006: Business*, Joint Donor Report to the Vietnam Consultative Group Meeting.