

Chapter 2: The initial conditions and sample populations of the "periphery provinces"

2.1 Initial conditions

2.1.1 Economic structure

The first step in understanding the present state of private sector development in the periphery provinces requires a look at the initial obstacles these firms had to overcome in the early years of economic reform in Vietnam. Two key obstacles to overcome were competition with the state sector, and the shift from agriculture-based economic activities to manufacturing and service sector businesses. Large state sectors are often cited as an obstacle to private sector development because they constitute unfair competition.⁷ Similarly, indirect help to the state sector, in the form of cheaper financing and land, may have discouraged private firms, because they lacked these advantages.

Looking at the contribution of agriculture to GDP helps us understand the structural difficulties in the economic transition of the provinces. A related factor in initial conditions for economic

growth, is the provincial level of urbanization and the initial size of agriculture in the province. These two factors are very closely related. Provinces burdened with large agricultural economies prior to 1986 have had a hard time developing quickly, for three reasons. First, complicated and expensive national compensation procedures for building on farm land tends to limit the amount of land that can be made available for investors. Of course, some innovative provinces

Interview Insights Box 1: Are transitions from agriculture and food security compatible goals?

In four out of the six periphery provinces (Ha Tay, Nam Dinh, Long An and Thanh Hoa), People's Committee representatives cited the shift away from dependence on agriculture, to industry and manufacturing, as one of their top two achievements over the past three years. The second most common achievement was food security – the ability to produce enough rice to feed all of the provincial population in a disaster. Taking these two goals together implies that agricultural production has improved dramatically over the past ten years, so that provinces can produce more food with less of their population devoted to the activity.

Though understandable, due to the history of famine in many provinces, it should be noted that a focus on food security in every province runs counter to the economic principle of comparative advantage. Provinces that are less well suited for agricultural production should allow firms within their boundaries to produce goods for which they are best endowed and import their foodstuffs from other provinces better suited for agriculture. An overt focus on agricultural production in every province can be inefficient.

have found ways around these difficulties through industrial concentrations (*khu vuc tap trung cong nghiep*). These are like industrial zones, but do not require the Prime Minister's approval. Second, training for displaced farmers is expensive, and has had limited success. Third, provinces with low urbanization in provincial towns and large agricultural sectors miss opportunities to achieve the benefits that occur when companies cluster in a single area. Thus, provinces with large agricultural sectors have more scattered economic development, and it is difficult for a small business in one part of a province to make use of the goods and services offered by businesses in another part of the province.

⁷ The term 'crowding out' used here refers to direct and indirect subsidies provided to the state sector, which raise entry barriers to free and fair competition by the private sector.

Table 2 depicts the way our sample provinces looked in 1997.⁸ As is quite clear from the table, both the agriculture and the state sectors were larger in the periphery provinces than in the high performing provinces. Small agricultural sectors are, in part, the result of the urbanization of HCM City, Ha Noi, and Da Nang. However, this is not always the case. Dong Nai, for example, had a larger agricultural sector than Thanh Hoa in 1997, and both Ha Noi and HCM City have larger state sectors than Ha Tay and Long An. In Dong Nai, Binh Duong and TT Hue, foreign direct investment (FDI) has been the driving force in industrial output.

Province	Agriculture/GDP (%)	State share of industry (%)	FDI share of industry (%)	Non-state share of industry (%)
Ha Noi	6.9	66	29	5
Ha Tay	60.5	45	43	12
Hai Phong	23.3	66	29	6
Nam Dinh	58.2	78	0	22
Thanh Hoa	42.7	98	1	1
TT Hue	32.3	22	75	3
Da Nang	8.9	45	43	13
Binh Duong	27.9	19	55	26
Dong Nai	49.6	16	82	2
HCMC	3.8	66	25	9
Long An	64.1	33	53	15
High Performers Average	19.4	42	47	11
Total Sample Average	34.4	50	40	10

Source: 10 Cuoc Dieu Tra Quy Mo Lon 1998-2000 and Nha Xuat Ban Thong Ke, 2001.

2.1.2 Infrastructure and proximity to markets

Officials in periphery provinces often state that private sector development is most constrained by deficiencies in infrastructure. These raise transaction costs because it takes more time to manufacture, communicate with customers, and get products to market. Analysts should not put too much weight on this, though, because the quality of infrastructure is partially determined by the decisions and priorities of local government.

The constraint rated second in importance for early economic development is proximity to large markets. Provinces near Ho Chi Minh City and Ha Noi

have benefited greatly from being located close to these large cities. Not only do they benefit from a large domestic market, but they are also closer to international markets, because these cities are near international airports and seaports, and have a larger percentage of more affluent expatriate

Interview Insights Box 2: Song Be's decision to improve initial conditions

Song Be province, which was subsequently divided into Binh Duong and Binh Phuoc, recognized its initial deficiencies in infrastructure and set about improving them in the 1990s. To do this, provincial authorities relied heavily on locally generated funds and strong lobbying of the Central Government for their priority projects (e.g., the electricity, water, and road system leading to their industrial zones). In 1994, a similar effort was made to improve the quality of labor in Song Be through a technical training center jointly funded by the province and aid from the Singaporean government.

⁸ Agricultural data is taken from the General Statistical Office's *Nien Giam Thong Ke* [Statistical Annex] 2000. Industrial data is the "contribution to the state budget of industry in 1997 by ownership and province," taken from p. 816 of *10 Cuoc Dieu Tra Quy Mo Lon* [10 Large Scale Surveys] 1998-2000, published by *Nha Xuat Ban Thong Ke* [Statistical Publishing House], 2001.

consumers. HCM City has its own port, while export products from Ha Noi usually travel along Highway 5 to the port at Hai Phong.

Table 3 illustrates the differences in infrastructure and proximity to markets of the sample provinces in 1997. As is to be expected, the high performers have better infrastructure and are closer on average to market centers. Though some provinces (notably Thanh Hoa and Long An), have poorer quality

Interview Insights Box 3: Thanh Hoa's improved access to Ha Noi

According to provincial officials, the improvement of Highway 1 in the late 1990s has cut the travel time to Ha Noi in half — from seven hours to roughly three and a half hours. This means a critical reduction in shipping costs for firms attempting to access the Ha Noi market.

electricity and road infrastructure, all provinces have a fairly high percentage of communes with serviceable infrastructure. The number of telephones per 1,000 people varies considerably among provinces, but its importance is in part determined by the target customers for a firm's products, and the sector within which it functions. For instance, exporters and high technology producers are more likely to need telecommunications infrastructure than suppliers to the provincial market. Proximity to market centers is very important, especially for TT Hue and Thanh Hoa. Da Nang is far from the two centers, but its large urban population and international-quality port perhaps make up for some of the difference. Long An and Ha Tay, however, are adjacent to HCM City and Ha Noi respectively, and still lag behind Binh Duong and Dong Nai, which are similar distances away from HCM City. To be fair, however, the two northern success stories of Hung Yen and Vinh Phuc have made quite an effort to market themselves to entrepreneurs as being "close to Ha Noi and Noi Bai airport," in order to attract investment.

Province	Percent of communes with electricity	Percent of communes with roads to center	Telephones per 1,000 people	Distance from Ha Noi or HCM City (km)
Ha Noi	100.00	99.20	109.76	0
Ha Tay	99.00	100.00	1.04	11
Hai Phong	96.20	98.10	26.18	101
Nam Dinh	100.00	100.00	8.26	90
Thanh Hoa	87.40	97.20	5.01	153
TT Hue	81.50	95.20	18.75	654
Da Nang	85.70	100.00	47.76	759
Binh Duong	100.00	100.00	26.73	30
Dong Nai	100.00	100.00	22.33	22
HCMC	100.00	98.40	73.96	0
Long An	86.40	86.40	13.53	47
High Performers Average	97.14	99.52	56.11	
Total Sample Average	94.20	97.68	32.12	

Source: 10 Cuoc Dieu Tra Quy Mo Lon 1998-2000 and Nien Giam Thong Ke 1997.

The low education levels of the workforce in 1997 are the result of the lack of secondary schools in the provinces. As column five in table 4 shows, TT Hue, Binh Duong, and Long An all lacked secondary education possibilities in about half of their communes

Interview Insights Box 4: Brain Drain from Nam Dinh to Ha Noi.

Nam Dinh has a unique human capital dilemma. According to provincial officials, ninety percent of Nam Dinh's top students, who receive admission to universities in Ha Noi, do not return to work or start businesses in the province. Rather, they pursue employment opportunities in the national capital. Officials are not certain of how to tackle this intra-provincial 'brain drain'.

in 1998. A final comparison is that of the education level of the owner. The five high performing provinces have a much greater number of owners with college education than any of the other provinces. TT Hue, with 1.39% of its owners possessing college degrees, comes closest to the top performer's average of 3.81%. But 3.81% is still a very small number, and certainly cannot account for the differences in provincial success at developing the local private sector.⁹

Province	Percentage of owners of private companies with college degrees	Percentage of private labor with college degrees	Percentage of private labor with secondary education	Percentage of private labor with technical school training	Percentage of communes with secondary schools
Ha Noi	3.49	1.08	1.76	5.04	99.5
Ha Tay	0.44	0.07	0.07	0.20	100.0
Hai Phong	1.37	0.76	1.96	3.40	97.5
Nam Dinh	0.28	0.04	0.25	0.21	100.0
Thanh Hoa	0.38	0.15	1.13	1.89	96.9
TT Hue	1.39	0.75	0.19	0.75	47.5
Da Nang	4.63	0.89	1.97	4.15	100.0
Binh Duong	3.21	0.80	1.10	0.60	57.6
Dong Nai	4.66	2.42	2.42	3.88	82.0
HCMC	3.05	0.69	1.67	1.84	79.0
Long An	0.21	0.08	0.08	0.47	59.3
High Performers Average	3.81	1.18	1.78	3.10	83.62
Total Sample Average	2.10	0.70	1.15	2.04	83.57

Source: 10 Cuoc Dieu Tra Quy Mo Lon 1998-2000 and Nha Xuat Ban Thong Ke, 2001.

2.2 General description of sample firms in the 2002 survey

2.2.1 Firm Type

The Enterprise Law clearly delineates different legal responsibilities for four different types of private enterprises. The Vietnamese abbreviations for these types must be clearly visible on the firm's own seal.

- Private enterprise or sole proprietorship (*tu nhan* -- TN): A private enterprise is owned by one individual who is liable for all the activities of the enterprise with all his/her assets. The investment capital of a private enterprise must be declared accurately at the time of the firm's registration at DPI. The owner of the enterprise has the full power to decide all business activities of the firm, and may lease, sell, or close the business, as long as the provincial DPI is notified. Private enterprises tend to be fairly small scale, with some notable exceptions where individual owners have worked hard to expand their business.
- Partnership (*hop danh* – HD): Partnerships are firms that must be formed by at least two partnership members (owners), who are liable for all the obligations of the company with all of their personal assets. A partnership may also have capital-contributing members, who are liable for only their contributions, and may receive dividends from company profits.

⁹ In the Webster and Taussig study (1999), they found that 54% of owners were college educated. For just those firms surveyed in the south, the number was lower, at 45%.

Partnerships are allowed flexibility in the determination of their management structure, provided it is detailed in the company charter. There is only one obligation on the firms—all partnership members must have equal rights in company decisions. These firms tend to be larger than private companies in terms of employment and assets, though for strategic reasons, small service firms have often opted for this form.

- Limited liability company (*trach nhien huu han* – TNHH): This type of enterprise may have up to fifty owners or members, who are either individuals or organizations. They are liable for the debts and property obligations of the enterprise within the amounts they contributed. The capital contribution of each member must be stated, and their signatures supplied at the time of the registration of the firm at the DPI. By law, these firms are required to hold regular meetings of their Members' Council, and appoint a General Director. In addition, all limited liability companies (LLCs) with more than eleven members must form Control Boards, whose power and obligations are stipulated in the charter of the company. Article 46 of the Enterprise Law provides for one-member limited liability companies, wherein the owner is liable for all debts within the chartered capital of the company. This protects large investors from full responsibility in the case of bankruptcy. LLCs tend to be relatively large, employing more workers and possessing more assets than private companies or partnerships at the time of registration.
- Joint-stock company or shareholding company (*co phan* – CP): Joint-stock companies are enterprises where the charter capital is divided into equal portions called shares. Shareholders are liable for debt within the amount of capital contributed to the enterprise. Joint-stock companies differ from limited liability companies, in that they are allowed to freely assign their shares to other persons with some exceptions, which are detailed in Articles 55 and 58. Two types of shareholders are allowed. Ordinary shareholders can vote at the General Assembly of Shareholders under the principle of one share, one vote and receive dividends from the company. Should a shareholder hold more than 10% of the firm for six consecutive months, the shareholder is allowed to nominate candidates to the Board of Directors and Control Board (if there is one).

Preferential shareholders are allowed more votes than an ordinary shareholder. The precise amount of votes is flexible, and must be stated in the company charter. Unless authorized by the Vietnamese national government, preferential shareholders should include only founding members up to three years after registration at DPI. All joint-stock companies must have a General Assembly of Shareholders, a Board of Directors and a General Director.¹⁰ Any joint-stock company with more than eleven members must form a Control Board that cannot include members of the Board or the General Director. All joint-stock companies must be audited by independent experts, prior to submitting financial reports to shareholders. After each fiscal year, these same financial reports must be submitted to the tax authority and DPI.

Like LLCs, joint-stock companies tend to be relatively large and sophisticated firms. In fact, only firms registered as joint-stock companies can trade shares publicly on the stock exchange. Former state owned firms which have been equitized generally take this form. In 2002, the National Assembly passed a new law allowing foreign-owned firms to register as joint-stock companies, albeit under very specific conditions.

¹⁰ The terms “CEO” and “General Director” have been used inter-changeably in this report to simply denote the highest decision making authority in all types of firms. Consequently, the CEO interview sometimes comprised owners, partnership members, or General Directors.

Interview Insights Box 5: Findings regarding firm type across the sample

Interviews in the provinces revealed some interesting findings about provincial application of the Enterprise Law, with specific regard to firm type.

- For one firm in Thanh Hoa, registration (investment capital of 700 million VND) was a highly complicated process, as it was the first single-owner, limited liability to ever register in Thanh Hoa province. Officials in the People's Committee had never heard of this type of organization and decided to move very slowly. Eventually, the director had to bring in law books from Ha Noi to show them that it was legal. According to him, the process was tedious and exhausting. Nevertheless, when the company re-registered at DPI (investment capital of 760 million VND), he found that the process had improved tremendously over time.
- A Nam Dinh firm operated as an LLC from 1996 to 1999 and re-registered in 2001 as a joint-stock company. The General Director argued that this switch was vital, as the firm had negative interactions with government officials and other businesses, which associated LLCs with a string of corruption cases and cheating that took place in the mid-1990s.
- A Long An LLC, which had re-registered twice already in order to increase the size of its investment capital, was preparing to go through the process one more time. Its intention was to convert into a joint-stock company and list its shares publicly. When

Tables 5 and 6 illustrate the spread of firms covered in both the samples of mail out and CEO interviews, by both legal type and province. As is clear from the two tables, very few joint-stock companies or partnerships from any province responded to the survey. Actually, registration of partnerships is a rare phenomenon across the country. The two largest groups of respondents were private firms and limited liability companies. Of the high performers, 71% of the firms were LLCs, which was replicated fairly well in the sample of for CEO interviews (63%). In the high performers, 22% of the mail-out respondents and 24% of the CEO interviews were from private sole proprietorships.

Among the six periphery provinces, there was a great deal of variance, both between provinces and across the two surveys. For instance, 70% of the TT Hue respondents were private, but only 7% of Hai Phong firms were sole-proprietorships. In fact, Hai Phong (83%) and Ha Tay (75%) had a higher percentage of limited liability companies respond than the first tier provinces. As noted earlier, Thanh Hoa had a very low number of all firm sub-types respond.

Table 5: Legal form of the sample enterprises in the mail-out survey

Province		Private	Partnership	Joint-Stock	Limited Liability	Other	Total
TT Hue	Number	38	-	3	13	-	54
	% of Total	70%	-	6%	24%	-	100%
Hai Phong	Number	2	-	3	24	-	29
	% of Total	7%	-	10%	83%	-	100%
Ha Tay	Number	11	-	2	44	2	59
	% of Total	19%	-	3%	75%	3%	100%
Thanh Hoa	Number	3	1	3	9	-	16
	% of Total	19%	6%	19%	56%	-	100%
Long An	Number	22	-	3	19	1	45
	% of Total	49%	-	7%	42%	2%	100%
Nam Dinh	Number	12	-	5	31	-	48
	% of Total	25%	-	10%	65%	-	100%
High Performers	Number	83	-	21	270	4	378
	% of Total	22%	-	6%	71%	1%	100%
Total	Number	171	1	40	410	7	629
	% of Total	27%	0.20%	6%	65%	1%	100%

Table 6 profiles the CEO interviews, so that one can see clearly that the distribution of firms was much more even, with many more joint-stock companies, but still few partnerships responding. Long An, Hai Phong, TT Hue, Ha Tay and Nam Dinh all had more joint-stock companies interviewed than the high performers. Once again, the number of individual private firms interviewed in Hai Phong was much lower than many of its peers. Long An (8%) and Thanh Hoa (10%) also had few small private firms interviewed. While the Hue and Ha Tay firms accurately reflect the proportion of registered firms in those provinces, the samples of Long An and Thanh Hoa are highly skewed toward limited liability companies. It is important to keep these numbers in mind when analyzing the survey results that follow.

Province		Private	Partnership	Joint-Stock	Limited Liability	Other	Total
Hai Phong	Number	1	1	3	8	1	14
	% of Total	7%	7%	21%	57%	7%	100%
Ha Tay	Number	4	0	2	9	0	15
	% of Total	27%	0%	13%	60%	0%	100%
Nam Dinh	Number	3	0	4	11	0	18
	% of Total	17%	0%	22%	61%	0%	100%
TT Hue	Number	7	0	3	9	0	19
	% of Total	37%	0%	16%	47%	0%	100%
Thanh Hoa	Number	1	0	1	8	0	10
	% of Total	10%	0%	10%	80%	0%	100%
Long An	Number	1	0	2	10	0	13
	% of Total	8%	0%	15%	77%	0%	100%
High Performers	Number	33	1	15	86	1	136
	% of Total	24%	1%	11%	63%	1%	100%
Total	Number	50	2	30	141	2	225
	% of Total	22.2%	0.9%	13.3%	61.8%	0.9%	100%

2.2.2 Firm size

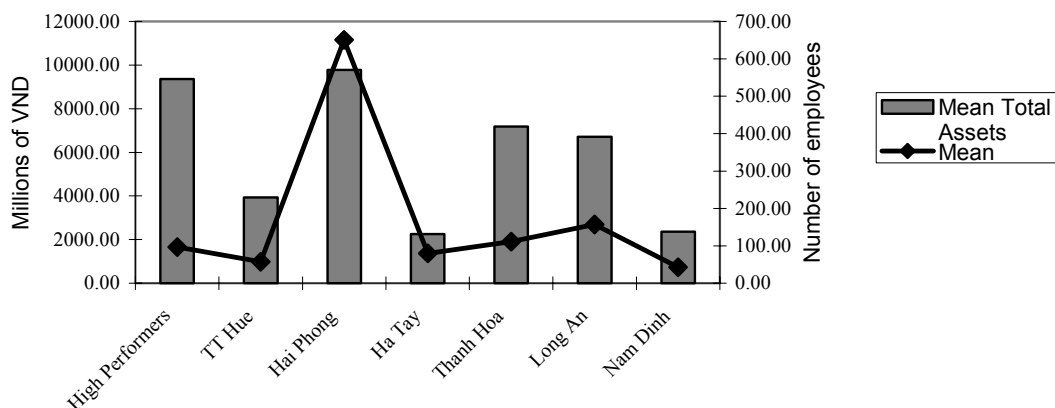
Two definitions of firm size are often used. One can either look at the total assets of the firm, or the number of employees. The mean assets of firms in Hai Phong (9.3 billion VND) are roughly comparable to those in the high performers (9.76 billion VND). The other second and third tier provinces have much smaller mean assets, with the smallest firms from Ha Tay (2.36 billion VND) and Nam Dinh (2.25 billion VND).

Employment differentials are much greater between the high performers and other provinces. Hai Phong is an exception, with a mean employment of 650. However, a few large firms in Hai Phong skew this figure. By contrast, the median employment in Hai Phong is 50 employees. Of the other periphery provinces, Long An and Thanh Hoa have higher mean employment (157 and 111 respectively) than the average of the High Performers (96). This is likely an artifact of the bias toward limited liability in these provinces.

To track down the question of firm size a little bit more clearly, one can group firms by their asset size. The groupings are admittedly somewhat arbitrary, and do not follow any standard determination of firm size, but a large group of these firms would be considered SMEs by Vietnam's present definition, and it is important to come to grips with the wide variance in firm

asset size.¹¹ This is done in table 7 below. Most of the firms are concentrated in the small to medium range (in Long An, Nam Dinh, Ha Tay) and the medium range (TT Hue and the high performers). Hai Phong is skewed toward larger size firms, with 44% of its sample larger than medium size, compared to 19% in the high performers. Thanh Hoa also demonstrates some skew, with only two firms smaller than medium size.

Figure 4: Mean size of firms by province, by asset size and employment



Province		1. Small (0-200 million VND)	2. Medium-small (200-1,000 million VND)	3. Medium (1-5 billion VND)	4. Medium-large (5-10 billion VND)	5. Large (10-20 billion VND)	6. Very Large (20-50 billion VND)	Mega (more than 50 billion VND)	Total
TT Hue	Number	1	11	29	3	5	1	0	50
	% of total	2	22	58	6	10	2	0	100
Hai Phong	Number	1	4	9	4	3	4	0	25
	% of total	4	16	36	16	12	16	0	100
Ha Tay	Number	1	29	18	7	1	0	0	56
	% of total	2	52	32	12	2	0	0	100
Thanh Hoa	Number	0	2	8	1	4	1	0	16
	% of total	0	12	50	6	25	6	0	100
Long An	Number	2	16	9	1	6	1	1	36
	% of total	6	44	25	3	17	3	3	100
Nam Dinh	Number	3	17	16	4	2	0	0	42
	% of total	7	40	38	10	5	0	0	100
High Performers	Number	21	81	123	33	27	20	12	317
	% of total	7	26	39	10	9	6	4	100
Total	Number	29	160	212	53	48	27	13	542
	% of total	5	30	39	10	9	5	2	100

Table 8 shows the mean total assets across different types of firms. Single owner private companies vary from 325 million VND (medium-small) in Ha Tay, to over 2 billion VND (medium size) in Binh Duong province. Limited liability companies range between just over 1 billion in VND (medium) to 10 billion VND (large) in Binh Duong province. Finally, joint-stock companies,

¹¹ The SME Decree (number 90), issued by the Government in 2002, defines SMEs as companies having a maximum registered capital of 5 billion VND and/or less than 300 employees.

which are interestingly absent in the Binh Duong and Dong Nai samples, range from medium size or 2.6 billion VND in Da Nang, to large size—13 billion and 17 billion VND—in Thanh Hoa and HCM City respectively. Employment variance seems to correlate with asset size.

Table 8: Median assets and employment, by type of firm and province							
Province	Type of Firm	Median total assets in 2001 (millions of VND)	Median total employment	Province	Type of Firm	Median total assets in 2001 (millions of VND)	Median total employment
Ha Noi	Private	940	14	Dong Nai	Private	731	9
	Joint-Stock Company	4250	70		Limited Liability	2226	23
	Limited Liability	1487	20		Total	1500	16
	Total	1489	20				
TT Hue	Private	2000	25	Long An	Private	500	10
	Joint-Stock Company	6003	37		Joint-Stock Company	2609	63
	Limited Liability	3200	62		Limited Liability	4758	70
	Total	2262	27		Other	NA	NA
				Total	1100	32	
HCM City	Private	1264	7	Nam Dinh	Private	311	9
	Joint-Stock Company	17064	72		Joint-Stock Company	9384	120
	Limited Liability	2725	28		Limited Liability	1266	35
	Other	15825	218		Total	1100	26
Total	2925	28					
Hai Phong	Private	7894	24	Da Nang	Private	1042	32
	Joint-Stock Company	2600	34		Joint-Stock Company	2586	108
	Limited Liability	4089	156		Limited Liability	2515	44
	Total	3478	50		Total	1500	40
Ha Tay	Private	325	6	Binh Duong	Private	2505	25
	Joint-Stock Company	3640	415		Limited Liability	10000	200
	Limited Liability	1114	33		Total	5278	120
	Other	1086	82				
Total	975	30					
Thanh Hoa	Private	1010	54	Total	Private	1000	15
	Partnership	NA	NA		Partnership	NA	NA
	Joint-Stock Company	13500	230		Joint-Stock Company	4569	76.5
	Limited Liability	4697	50		Limited Liability	2000	35
	Total	3474	69		Other	4370	140
				Total	1800	30	

2.2.3 Distribution by Sector

The sample of firms was explicitly designed to capture manufacturing, trading, and service firms. Therefore, the small number of agricultural firms in table 9 should not be surprising. Distributions across the periphery provinces are similar, with the exception of the small industrial sector in TT Hue. This is to be expected, given the heavy focus on the tourist industry in the former imperial city. One might expect that comparative differences in industrialization and service sector development are determined by geographical factors. As a result, table 9 is broken down by region. Nevertheless, there is little direct impact of location on the sectoral distribution. Rather, geography impacts with urbanization to create an interesting pattern. The northern and southern cities of Hai Phong, Ha Noi, and HCM City have large service and commerce sectors, whereas Da Nang has very few non-industrial firms. The Da Nang distribution looks much more like the distribution of the less urban high performers of Binh Duong and Dong Nai. The final column looks at the number of firms that are operating in more than one sector. Firms in Ha Tay, Hue, Dong Nai, and Binh Duong are unlikely to spread into other areas, but HCM City, Thanh Hoa, and Nam Dinh firms are more likely to operate in multiple business sectors.

Interview Insights Box 6: Firms operating in more than one sector

One Thanh Hoa firm operated in four completely distinct product lines. It had significant operations in seafood processing (3 billion VND turnover annually), mining, rattan, and sales of forest products such as herbs. In the rattan industry, the firm was more of a sales agent, taking orders from overseas and domestic firms and passing them on to local farmers with free time. A Nam Dinh firm was a sales agent for paper products, but was gearing up to extend into ceramics production.

Province	Firms in Industry (%)	Firms in Agriculture (%)	Firms in Commerce (%)	Firms in Services (%)	Two or More Sectors (%)
<i>North</i>	45.3	3.0	47.6	34.1	26.2
Ha Noi	39.7	3.1	55.0	37.4	30.8
Hai Phong	44.8	0.0	31.0	55.2	24.1
Nam Dinh	50.0	4.2	54.2	31.3	37.0
Ha Tay	54.2	3.4	33.9	18.6	8.6
<i>Central</i>	49.2	1.6	37.7	34.4	22.9
TT Hue	27.8	0.0	44.4	42.6	15.1
Thanh Hoa	56.3	6.3	37.5	50.0	43.8
Da Nang	69.2	1.9	30.8	21.2	24.5
<i>South</i>	50.0	1.7	50.0	28.8	29.4
Dong Nai	54.2	0.0	33.3	25.0	13.0
Long An	57.8	0.0	42.2	20.0	20.5
HCM City	34.8	1.8	65.2	43.8	43.2
Binh Duong	71.2	3.4	33.9	8.5	15.8
High Performers (average)	48.1	2.4	50.0	31.7	30.3
Total (average)	47.9	2.2	46.6	32.1	26.8

2.2.3 Firm age

One expectation of this author was that firms in the periphery provinces would be younger, mostly arising after the initiation of the Enterprise Law in 2000. The median initial founding year, however, was actually older in the secondary provinces than in the high performers, as table 10 shows. Comparing provinces, registration at the provincial DPI was in the same general timeframe,

with TT Hue (1995) and Nam Dinh (2000) at the far ends of the spectrum. Nam Dinh's late mean year of registration gives an indication of the early difficulties private firms had in establishing themselves in that particular province.

The earliest year of firm founding was, in a number of provinces, well before the beginning of the economic renovation program (ie. prior to 1986). For example, firms in Ha Tay and Thanh Hoa were established in the late 1950s and early 1960s, as agricultural cooperatives or state owned industrial units. As Webster and Taussig discovered in their study, about 9.4% of the sample were founded between the Cambodian War in 1979 and the formal recognition of the private sector in 1998. This "fence breaking" development, when the central government seemingly allowed for some experimentation in the private sector, was most apparent in TT Hue, Hai Phong, Dong Nai, and Binh Duong.¹² Overall, 30.8% of firms in the entire sample were founded between 1992 and 1995, in the early years of economic reform. Another 30.2% were founded between 1995 and 1999. The percent of post-Enterprise Law firms in the sample was fairly small, at just 9.7%. Nevertheless, 26% of the Thanh Hoa firms and 17% of those in HCM City were founded during this period.

The above notwithstanding, it is somewhat misleading to measure firm age by the year of founding, as many owners will give the date of original formation when the firm was still informal, or even part of the state sector as an agricultural cooperative. For the purposes of this report, it is more important to understand when the provincial business environment became conducive for firms to formalize their activities.

The year firms registered at the provincial People's Committee or DPI (after the Enterprise Law) gives a better idea of the business and regulatory environment for private sector firms, as this denotes when they decided to formally declare their activities and assets. Of the sample firms, 39.4% were registered between

Interview Insights Box 7: Former cooperatives becoming private firms

Many firms in the sample began their business lives as cooperatives and therefore record their founding year as the year the cooperative came into existence. This was particularly common in the periphery provinces, where firms found opportunities to extend their cooperative activities in the private sector. A few interesting examples include a Thanh Hoa firm, which started as a cooperative exporting stones in 1986, but after re-registering as a LLC, became one of the leading marble producers in the province.

Two Ha Tay firms have had different fortunes after converting former cooperatives. A manufacturer of spare parts for motorcycles was quickly able to find a market for his product upon re-registering in 1995. A second garments producer, which originally operated as a cooperative, producing for SOEs has been unable to lure additional clients since re-registering in 1997. It remains dependent on production contracts supplied by big SOEs, such as Garment Company 10 and Industrial Garments.

1995 and 1999, while 29% were registered after the passage of the Enterprise Law.¹³ As can be seen in figure 5, the high performers have balanced registration across the 1990s, while in the periphery provinces (notably Nam Dinh with 59%), registration boomed significantly after the Enterprise Law. TT Hue, which had its boom during the 1992-1995 period, and Thanh Hoa, with primarily "fence breaking" firms and former cooperatives (71%), are the key exceptions.

¹² The term was first popularized in Fforde and de Vylder (1996).

¹³ Firms that registered before the 1992-1995 period, probably registered at the provincial People's Committee and did not re-register after 2000.

Table 10: Median year of founding and registration, by province				
Province		Year of Initial Founding		Year of Registration at DPI
TT Hue	Median		1991	1996
	Minimum		1976	1991
	Maximum		2000	2001
Hai Phong	Median		1992	1998
	Minimum		1984	1993
	Maximum		1999	2001
Ha Tay	Median		1993	1997
	Minimum		1958	1992
	Maximum		2000	2001
Thanh Hoa	Median		1994	1995
	Minimum		1962	1987
	Maximum		2000	2000
Long An	Median		1995	1998
	Minimum		1981	1992
	Maximum		2001	2002
Nam Dinh	Median		1992	2000
	Minimum		1970	1993
	Maximum		2001	2001
High Performers	Median		1995	1998
	Minimum		1970	1975
	Maximum		2001	2001
Total	Median		1994	1998
	Minimum		1958	1975
	Maximum		2001	2002

Figure 5: Year of registration at People's Committee or Department of Planning and Investment (DPI)

