

Chapter 8: Summary analysis of the periphery provinces

This chapter reviews the lessons that can be drawn from the previous chapters, by looking at each periphery province in turn. Also please refer to appendices 5 and 6, which provide a ‘score card’ matrix representation of the periphery and high performing provinces.

8.1. Hai Phong:

This second tier city is the lowest performing provincial city, but still has many of the advantages of urbanization and infrastructure. It began its development trajectory with more favorable initial conditions than any of the other periphery provinces. Hai Phong’s developmental legacy was the important role of the state sector in its industry prior to 1997. Firms in this city tend to be of larger size, and predominantly limited liability companies. These firms are more internationally oriented than their peers, both in terms of the destination of their sales and the origin of their inputs. Performance scores of Hai Phong firms were not spectacular, demonstrating very little profit, despite sales growth. Part of the problem is that Hai Phong firms are right at the limit of their capacity; a problem compounded by the difficulty they face in accessing land. The crucial issues for Hai Phong seem to be governance factors, which were immediately evident by the unwillingness of firms to respond to sensitive questions, such as the frequency of inspections. Hai Phong firms ranked the province near the bottom in levels of transparency and the transaction costs imposed on firms due to waiting periods and customs procedures. Finally, dynamism in Hai Phong was only mid-range.

8.2. Long An:

Long An is a difficult province to understand at first glance. Its initial conditions were inauspicious but not disastrous, and over time the situation has improved drastically, as neighboring Binh Duong and Dong Nai have become more expensive locations. Long An out-performs its peers on governance scores, with accessible land, high transparency, and low transaction costs on both inspections and waiting. Long An also demonstrates a highly pro-active provincial government that is committed to assisting development. Long An firms have even been able to break through to the private commercial banking market in order to get loans. Firms in this province are the least likely to depend on family and friends to correct for market deficiencies. And yet, Long An firms did not perform at the top of the sample over the past year. Profit per employee was very high, but employment and sales growth over the previous year had been limited. There is some speculation concerning tough competition from foreign investors, but while 9% of Long An firms cite their main competition as foreign invested firms, their competitors are not numerous enough to account for such poor results.

8.3. Ha Tay:

Like Long An, Ha Tay began with difficult but not overwhelmingly poor initial conditions. It is close to the Ha Noi market and has reasonably good infrastructure. Ha Tay’s major disadvantages seem to have been the difficult transition from agriculture, and low levels of education in the available labor force. Since the implementation of the Enterprise Law, Ha Tay has seen rapid growth in the size of its active private sector, spurred to some extent by domestic and foreign investment seeking close access to Ha Noi. Further growth of Ha Tay’s firms is constrained by limited land and financing. Over 53% of firms are “in the process of applying” for formal recognition of their land. This problem is compounded by the fact that over 50% of the output from Ha Tay firms is sold to its struggling SOE sector.

Firms in Ha Tay also feel disadvantaged by two profit cutters: competition from cheap smuggled goods, and the need for expensive inputs from overseas. Ha Tay firms complain about competition from the state sector and firms with close relations to local officials, which Ha Tay entrepreneurs feel unfairly benefit from government assistance in financing and contracting. Governance scores are relatively good in this province, though several questions with no responses should signal that entrepreneurs were reluctant to speak freely on these issues. Nevertheless, Ha Tay firms only seemed to be disadvantaged by the low dynamism of their government, which may stem from being too close to Ha Noi. Ha Tay government officials are likely to have close connections to the central government, and are consequently constrained from lobbying strongly for any change. A final important factor to consider in designing a program to assist private sector development in Ha Tay is the large number of firms who rely on relatives for business service provision, especially sales promotion.

8.4. Thua Thien Hue:

TT Hue is an especially interesting province to study because of the dominance of small-scale individual private enterprises among its respondents. In fact, TT Hue has seen a boom in post-Enterprise Law registration and activity in exactly this area. Though the seat of imperial power, Hue was the most hindered by initial problems with infrastructure and distance from markets. Its business activity was primarily concentrated locally, with little emphasis on international sales or competition. The one exception was the importance of the customs laws to Hue firms, due to the tourist industry. In fact, Hue's relative isolation may have contributed to particularly healthy competition among private enterprises. Implementation of the Enterprise Law has been exceptional in TT Hue, and availability of land does not seem to be a development obstacle. We cannot be entirely confident of TT Hue's land policy results, however, as 45% of Hue firms chose not to answer whether they held land use rights certificates. The Hue government does impose high transaction costs on its firms, through extra long waiting periods. Unofficial payments to government officers are 7% of sales—the highest in the sample. The TT Hue local government is only a mid-level dynamic actor, though there is some evidence indicating this is changing. TT Hue firms rely heavily on family and friends for capital, and are unlikely to apply for bank loans because they are deterred by the high collateral requirements. In addition, family and friends in TT Hue are heavily involved in sales promotion and business service provision.

8.5. Thanh Hoa:

CEOs in Thanh Hoa had the most negative responses in the sample on general business environment and governance, despite the fact that they had the best return on their investments of the whole population. Like TT Hue, Thanh Hoa had very difficult initial conditions, but has seen their negative impact decline over time, primarily due to national road and port improvement projects. Thanh Hoa firms, though small in number, tended to be of a slightly larger scale than the average firm. Employment growth in these firms has been positive and sales growth was the best in the sample. One cause of concern for Thanh Hoa firms is that they are highly leveraged. This may result from three factors: 1) high returns in previous periods have made Thanh Hoa a good place to invest; 2) the largest per-firm use of informal money lenders; or 3) the fact that 67% of Thanh Hoa firms gave credit to customers. (In fact, median credit has grown 183% since 1998.) The generosity in credit provision is the result of a high dependence on SOEs and local government as customers for their products. Competition in Thanh Hoa is predominantly in the private sector, but government assistance in financing is a critical determinant of success. Problems with SOEs are also rife in Thanh Hoa; 80% of firms competing against SOEs believe the government is aiding their adversary. Land is cheap and available in Thanh Hoa, but the

other elements of governance in that province are clearly threatening. Transparency poses a major problem for firms, as does transaction costs from inspections. Clearly, the most pernicious problem is that 74% of firms in Thanh Hoa believe the government uses compliance with regulations to extract unofficial payments from them, which impedes their business activities.

8.6. Nam Dinh:

As close observers of Nam Dinh might have guessed prior to the survey, the major developmental issue is the legacy of the state sector, which used to be the pride of the province and the country. Interviews with local officials confirmed what shows up in the survey data; that the fortunes of the private sector are highly entangled with the fortunes of the SOE sector in terms of sales, inputs, and competition. Nam Dinh firms even have the highest percentage of joint ventures with the state sector. It is this fact, more than Nam Dinh's other mediocre (but not terrible) initial conditions, that have slowed down the development of private entrepreneurs. Nam Dinh firms are struggling; they have low returns on investment and low sales, but are highly leveraged (also due to their outstanding credits to customers, mainly SOEs). They have seen rapid growth in capacity utilization, but cannot expand capacity due to limited land and finances. SOEs are the major customers of private firms in Nam Dinh and suppliers of inputs. SOEs also are the biggest competitor to the Nam Dinh private sector, and according to 72% of Nam Dinh firms, they receive assistance in contracting and financing, which further tilts the playing field in their favour. If this was not enough, Nam Dinh's government consistently ranks low on the various indicators of performance. It is especially non-transparent, and costs its firms dearly with over-zealous inspections, though its dynamism does place it at the top of third tier provinces. Interestingly, Nam Dinh CEOs report the lowest percentage of their sales to the tax authority of any province – a clear indication that they fear giving too much information. Nam Dinh firms are unlikely to apply for bank loans because of excessive collateral requirements and the small size of the loans available, preferring to turn to family and friends in higher numbers than in any other province. Firms in this province were most likely to cite the various constraints of limited finance. The positive note for development is that entrepreneurs in Nam Dinh are large users of business services from close relations, though they are highly conscious of price when purchasing them.