THE ROLE OF SMALL AND MEDIUM-SCALE BUSINESSES IN THE RENOVATION PROCESS OF VIETNAM

Tuong Lai

1. Regional and Worldwide Outlook

Together with overcoming the devastation of the typhoon Linda, which struck many southern localities, Vietnam is struggling against the economic and financial storm, which is sweeping over, not only Asia, but also the world as a whole. The latter is by far more worrisome.

Many Asian countries, the dragons or tigers which once were referred to as an economic miracle of the very dynamic Asia Pacific Rim, are now feeling what was warned by John Maynard Keynes as early as in the 30s of this century: "Nothing good should be expected from a situation in which a country's development is the by-product of a casino." Many Southeast-Asian countries are having a very difficult time because of the gamble that the estate and financial investors have taken. Keynes’s prediction is also haunting many other economies outside Asia: "The more perfect the investment markets the more prevalent the speculation. Speculators themselves are not dangerous if they were merely the water bubbles on a smooth flow of business transactions. The situation only gets serious when the business becomes a bubble on a whirl pool of speculation."¹

As a matter of fact, no matter of possible risks, large flows of capital that were pouring into the emerging markets in a relatively short time were, then, withdrawn all of a sudden without consideration of possible long-term consequences, causing the collapse of many economies which just a short while earlier were very proud of their miracle prosperity!

The bitter lesson of the monetary-financial crisis, which has become all too clear to many of the world's economists is the vulnerability of the economic and banking systems to unplanned or unregulated growth, which allowed banks to provide a tremendous amount of easy credits, thus accumulating huge amounts of bad debts. This crisis has caused national currencies to devalue by 30% to 60% and stock index to drop. But what is most significant is the fact that the stock and financial crisis in Asia has gone beyond the classic scenario of a market crisis. This is the crisis of the problematic economic structure itself which is profound and spreading gradually to the whole world, causing different consequences for different regions and countries depending on their levels of integration into the global economy.

Vietnam luckily is less (or will it only be later?) affected by the crisis than other countries in the region. According to David O. Dapice of the Harvard Institute for International Development, this can be explained in many ways: Vietnamese currency is not convertible, therefore a negative currency speculation is not likely to occur. Because of Vietnam's low income per capita the need for development outweighs the effect of the crisis. Since industrialization for import substitution is still in the very primary stage, it is not sensitive to the fluctuations of external demands as long as the foreign capital is still enough to make up for the low internal accumulation. Dapice, however, also warned that this does not mean the main impact of the current crisis in Asia (or the world) can be avoided by Vietnam. It only comes later. Unless there are bold reforms in the country’s policies on finance, foreign exchange rate and investment, there is no hope to regain the 1990-1997 GDP

growth rate of 8% to 9% per annum or even a lower rate of 6% to 7%. Vietnam risks to isolate itself from the global market.²

The Vietnamese leadership has also felt the impact of this crisis on the Vietnamese economy, "particularly in export, import, foreign investment and the stability of Vietnam's currency. In this situation, the existing weaknesses of the economy, especially the low productivity and weak competitiveness of its goods can be seen more clearly."³

In the context that the existing weaknesses and shortcomings are revealed more clearly when facing the acute challenge of the Asian and global crisis, we would like to discuss the role of small and medium-scale businesses in the present renovation process in Vietnam.

2. Reconsidering the Starting Point

The renovation in Vietnam was launched to save the country from the profound and prolonged socio-economic crisis, which lasted from the late 1970s to the late 1980s. There were many causes of this crisis, which led the country to the edge of the ravine. But the most obvious one were the failure of the model of centralized, subsidized, and planned economy, which accepted only two forms of ownership: collective and people's ownership, and isolating itself from the dynamic and constantly changing environment of the region and the globe.

The approval of market mechanism and multi-sectoral commodity economy which also means the acceptance of diversified forms of ownership, has truly generated a great motive for renovation, saving the country from the danger of collapse. Fifteen years have passed and the start of this process can be seen clearer than ever.

In an agricultural country where 80% of the population live in rural areas and 73% of its labor force is engaged in agricultural activities, giving back the right to control production to peasant households (even though they are still members of cooperatives, like the majority of the peasants in North and Central Vietnam or members of loosely regulated production groups) really generated a motive to boost agricultural production and economic growth. Beyond the expectation of many people, Vietnam developed from a rice importer, after the implementation of the new policy and mechanisms, which created a positive motive for production, to become the third, and then the second largest rice exporter in the world.

The drastic changes in rural areas had a strong impact on urban areas as well as on the industry. The open door policy brought the Vietnamese economy new tools to overcome stagnation and backwardness and to move forward gradually. A Vietnamese official asserted that "Renovation means to get rid of the out-of-date and backward practices, renew what can be done and innovate new things." This is neither simple nor quick-to-get wisdom, especially when it comes to realize "the new things, which are in accordance with the rules and laws, able to save the situation, socially acceptable and in accordance with people's will."⁴

To accept a multi-sectoral commodity economy with market mechanisms meant to correct the mistake of imposing one's subjective will on reality, regardless of historical laws and skipping stages with no consideration of the low starting point of all fields of a country which had just overcome a devastating war, and which needed to boost production quickly to improve the poor living standards of the majority of the population, especially the peasants. To accept diversified forms of ownership in the market economy is the solution for the situation, which created a motive to trigger the development of Vietnam during the past fifteen years. Starting from there,

the struggle for the development of new practices, and against backwardness, which hampered the development, is a prolonged, complicated and very challenging one. Defining the role of small and medium-scale businesses in the economy is not outside this difficult struggle.

3. Businessmen and the Burden of the Past

In the long history of Vietnamese society, traditionally a small-scale agricultural one, traders were not well treated. The mentality of attaching much importance to agriculture while oppressing trade was originated from within the small-scale agricultural society of wet rice cultivation. Traders were ranked the last in the society despite the existence of an old saying that "there is no prosperity without trade".

In the small-scale agricultural society, genuine trade did not have enough opportunities to assert an important role. For a long time in the Vietnamese history, agricultural productivity was so low that it hardly met the population's demand for food, let alone providing a surplus. Agriculture produced rice, and handicraft produced simple goods for consumption and production, but small trading activities took place only on market days in small villages or in more distant districts. With the domination of the opinion that "agriculture is pivotal", a small peasant household often engaged in agriculture, handicraft and trade at the same time. But agriculture was most important; handicraft produced consumer goods during the peasants' free time (between the planting and harvesting periods); trading activities were mainly for women, selling things at village markets to earn some additional income. Village markets were places where agricultural and handicraft products, made by peasants themselves were bought and sold. Until the end of the 19th century, almost all larger villages in the Red River Delta had a market of their own, which were held on certain days. There existed about 14 to 22 markets in a district, one market for every four to seven villages. There existed trading centers, which once were prosperous such as Ke Cho and Pho Hien. This marked a step in the development of commodity production in the Red River Delta, the cradle of the Vietnamese nation. However, until the late 19th and early 20th century, the Delta's economy could not get over the long lasting stagnation of a small-scale agricultural, pre-capitalist society.

In that small-scale agricultural economy, the Confucian influences exacerbated the mentality of attaching much importance to agriculture while oppressing trade and discriminating merchants. As "honor" was highlighted and "profit" was despised, vainglory was loved while attention was not paid to real business.

"Honor" outweighed "profit" and "profit" was strongly opposed in order to deter attempts to overcome misery as well as the wish to make oneself rich because that was considered to be a source of social instability. Manh Tu (a Chinese Confucianist) said: "The loss of a country is inevitable if everyone fights for profit, and if profit is the focus of people's relationships!" Actually, the goal of that philosophy was to maintain the small-scale agricultural production. Since agricultural cultivation was very hard and risky due to so many unexpected natural disasters, those who wished to earn big profit to get rich often quit agriculture and shifted to trade. Therefore, the essence of this philosophy was to keep peasants in their villages to assure tax collection as well as soldier and labor recruitment for the ruling dynasty.

Therefore, to oppose the will to get rich and chase profits, Confucianist guidelines were to be content with one's fate and social position, "not to blame God or anyone else for anything", and the best solution for poverty was to practice thrift. Confucianism advocated "tri tuc", meaning to know how to be satisfied with what one had and "tiet duc", meaning to know how to limit one's material desires. According to Confucius, "there are joy and happiness in a life where one merely eats vegetable, drinks water and uses his hands instead of a pillow." Praising only the joy and happiness of a poor life, and not that of a rich one did not mean Confucianism advocated "mortification" or "desire extermination". It only advised people to resign themselves. In order to do so, it was a must to understand the philosophy of "an ban, lac dao" meaning to be satisfied with one's lot. Methods
of governing the country and social management were well impregnated with this philosophy. "It is worth to worry not when people get small shares but when they get unequal ones, not when people are poor but when they are unsettled. Because once equality is assured, poverty does not exist, once harmony is achieved, small shares do not matter, and once stability is guaranteed, there is no collapse." Those arguments and philosophy all aimed at a single goal that was to maintain a harmonious and stable social order with the hierarchy based on the principle of the king's ownership and the rule of the entire nation: "Any land under the sky belongs to the King, and those who live on the land are all the King's subjects!"

The mentality of "attaching much importance to agriculture", aimed at binding the peasants to the land in their small villages and communities to assure tax collection, soldier and labor recruitment for the feudal regimes, certainly led to oppressing trade. Because, as a matter of fact, traders were most difficult to put under control, and at the same time most capable of undermining the principles and orders of a small-scale agricultural society. To prevent this danger, Confucian ideology tried its utmost to demean the role of traders, by calling trade a mean job and traders mean men.

Of course, not all Confucian points of view and of its philosophy were accepted by Vietnamese society and culture. The cultural evolution is a process of domesticating external characteristics. Those external characteristics never maintained their original forms but adjusted to fit the host environment. But on the other hand, the long lasting Vietnamese small-scale agricultural society was a fertile land for those points of view and philosophy to take root. The practice of demeaning the rich and looking down upon the better off was rooted deeply in the spiritual life of Vietnamese small-scale agricultural society. Wealth alone was not enough, it had to go along with nobility. To be in the upper class of the society, one needed to have these two factors at the same time. Thus, there were enough reasons for traders to be despised. This mentality lasted almost endlessly. However, at times, one might think like King Tu Duc did in 1867: "In ruling my subjects, whatever I do, whichever order I make, I always carefully consider whether it might hurt my people, then why they are not prosperous, but on the contrary, the country's wealth gets rarer and rarer!" Ambassadors and envoys coming back from their missions abroad all agreed with the King's conclusion that: "Thanks to paying the utmost attention to trade, foreign countries got prosperous and powerful enough to dominate others. So it is the right thing to do, not only for them but also for us." However, despite this thinking, the country's economic foundation and the toughness of its mentality and customs did not allow any reforms to take place. The Vietnamese economy kept stagnating in the system of self-sufficiency in a small-scale agricultural society and was in no way shifted to commodity production. Traders and businessmen could never rise in the social hierarchy as they were destined to be at the bottom!

Even after Vietnam's resounding victories in its wars against foreign occupation in 1954 and later in 1975, the role of businessmen continued to be undervalued. They were mentioned reluctantly when some of them made generous contributions of their assets to the state treasury during "golden weeks" after the August Revolution or sheltered and supported revolutionaries just to get very modest acknowledgment, not to mention poor treatment. This was easy to understand because traders or businessmen were always associated with the "bourgeoisie class", the class against whom the Revolution was aimed. The process of "joint venture between private and public sectors", which was launched to reeducate the bourgeoisie in the North and that was repeated in the South after 1975, aimed at reorganizing private trading and industry sectors, in theory and in practice, put traders and businessmen on the other side of the front line during peace.

The economic model with a centralized, planning and subsidy mechanism, which denied market elements certainly did not have any place for businessmen, who were described by some ideologists

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and officials at that time as the incarnation of the bourgeoisie class. The prolonged and serious socio-economic crisis, signaling the collapse of that model, which was "strange to socialism" as Pham Van Dong put it, led to the formation of reform policies, which accept a multi-sectoral commodity economy, operating in the market mechanism with socialist orientation.

The reform in the way of thinking about the economy led to the formation of a new way of thinking about businessmen, who played an indispensable, not to say vital role in the market economy. In practice, the society pays less attention to which sector they belong, and thus no longer associates them with the "bourgeoisie class". "The reform tendency prompted the drastic changes, especially in the way of thinking, which is very difficult, more than any other reform." Life has proved it right.

The burden of the past, carried by businessmen - who were insultingly called "mean traders" - is not easily undone overnight, although many state employees wish to be directors of enterprises, a kind of businessperson in the state-owned sector which enjoys real respect. In a market economy, which is still at the very first stage of its development after a long history of discrimination and deny, not yet assured a firm stand in the insufficient legal framework, where the wildness of a captured free market that still exists to some extend is the favorable condition for evil practices of a handful of condemned businessmen, the historically legitimate prejudice is very hard to dispel completely.

However, life itself will automatically adjust to the practical conducts. The economic evolution with its own requirements will create the kinds of public opinions which satisfy the development demand. The public will honor those businessmen, who fulfill the tasks that the society assigned to them in order to be the main force in promoting production, creating new jobs for workers, raising the competitiveness of Vietnamese goods in the market in order to further step up Vietnam's integration into the regional and global economy, aiming at finding out and making full use of its advantages and effectively coping with challenges.

4. The Role of Small and Medium-Scale Businesses in Solving the Most Burning Social Problem: Unemployment

With the principles of a multi-sectoral commodity economy operating with market mechanisms, all assets of the people can be converted into capital in order to make investments and earn profits for their owners. Whether the capital's owners are willing to make investments to earn profit depends on many factors: their habits of using money, whether they are confident of the state policies and laws, and whether the investment environment is favorable.

From the perspective of the country's interests, the more people invest in ventures to earn profit, the better the conditions there are to develop the economy and promote social progress. The lesson drawn from the economic crisis in Asia urges the formation of policies facilitating the investment of small and medium-scale businesses to expand their production and activities. The Taiwanese economy is a good example. The reason why Taiwan is less shaken by the storm of the crisis is mainly due to the fact that in this country, the small and medium-scale businesses play an important role in the economy. This type of business, which goes along with private ownership in the cooperative division of labor, is praised for being dynamic, flexible, and highly effective. It offers many job opportunities for local workers, requires small investment and a quick return of the capital, could easily be shifted to other products that the market demands, promptly upgrades technology and improves the quality of goods.

6 "Ho Chi Minh and Vietnamese people on the path to a strong country and a prosperous nation", National Politics Publishing House, Hanoi 1993: 34.

7 Pham Van Dong: "Ho Chi Minh and Vietnamese people on the path to a strong country and prosperous nation", Hanoi 1993: 34.
Under present conditions and given the above mentioned advantages of the small and medium-scale businesses and a Vietnamese economy facing acute challenges from the economic-financial crisis in Asia and the world and the need to continue stepping up the renovation process to develop the country, it is the right thing to take advantage of these businesses.

On June 20, 1998, the Vietnamese Prime Minister issued a decree on temporary regulations for the small and medium-scale business, which defined them as any businesses with a registered capital of less than five billion Vietnamese dong and an average annual number of workers of less than 200. According to this definition, 80% of businesses in Vietnam are small and medium-scale (including public and non-public sectors), employing about 25% of the labor force and contributing approximately 24% to the country's GDP. However the development of small and medium-scale businesses is not very positive. The mobilization of domestic capital for economic development is considerably low in comparison with the demand as well as the potential of the people. The apprehensiveness of people remains strong, which prevents them from being willing to invest in business. Even more noteworthy is the unwillingness to invest in private enterprises and companies. There are cases, when a number of household businesses (as defined in the Decree 66 of March 2, 1992) have reached a fairly large scale of business but do not want to form companies or operate as private enterprises. Some private enterprise, who are in a good shape, even want to dissolve themselves to register their operations as household businesses as defined in the 66 decree! In other words, many investors are not willing to do business officially on a large scale, or in fact, find it difficult to do business smoothly as a company or private enterprise.3

Yet, the main guideline for the next step of development to overcome difficulties is: "Fully tap the internal resources, at the same time expand international cooperation, firmly maintain political stability, step up industrialization and modernization", of which "agricultural and rural development is the basis and driving force for industrialization and modernization". 9 More than ever, the people's potential resources should be mobilized and small and medium-scale businesses are the most suitable form to do this.

A recent World Bank report to the Conference of Vietnam's Donors, held on December 7-8, 1998, titled "Vietnam Overcomes Challenges" gave some noteworthy advice:

"Only by fully using the energy and dynamic of the entire nation can Vietnam manage to overcome challenges, increase economic efficiency and attract more capital from both domestic and external sources. So far, farmers, state-owned enterprises and foreign private companies are the main driving forces for the country's growth. Still, the small and medium-scale businesses are playing a very modest role, especially in the field of industry. Nevertheless, they are the ones, which use resources most effectively and the main factor that creates new jobs in other countries in the region. They, therefore, should be encouraged in Vietnam."

The following advice was given in the second chapter of the report called "To free the potential of all Vietnamese people", after reviewing the economic situation and giving a conclusion in the first chapter:

"The shock of the regional crisis has affected Vietnam through a sharp decrease in foreign investment and export growth - equal to approximately three billion US-$ or 12% of its GDP. This is posing a threat both to external relations and fiscal balances. With this year's slow agricultural growth, the total GDP growth is expected to be only half of last year's figure (based on the figure of the first nine months of 1998), although the government expects only a one-third decrease. The sharp decrease of GDP growth has posed a threat to the impressive course of hunger eradication and poverty elimination that Vietnam has launched."
From a sociological perspective, we would like to mention only one main reason why small and medium-scale businesses should be developed, that is its ability to attract labor force, and create jobs, the most burning social issue in Vietnam at present.

In terms of the population structure, people below the age of 16 count for 45%. The unemployment rate is about 6%, and 10% in urban areas alone. The employed in rural areas, including those with part-time jobs is equal to about 10 million people. Meanwhile, the supplementary work, and even the revival of traditional handicrafts have not been able to provide enough jobs to meet the employment demand.

It is worth noting that while the number of laborers in the public and cooperative sectors has decreased due to restructuring and streamlining public enterprises, the number of non-public enterprises has increased. The 1990 figure was 1.5 million, 1993 2.1 million and in mid 1995 2.4 million. Besides, about one million others are working for small-scale household businesses with unstable jobs. Although this number is significant, it is a very small number as compared to the number of unemployed people.

The ability of the industrial zones and export-processing zones to create job opportunities is also appreciated. Until December 1997, there existed in total 45 industrial zones and three export processing zones, which employed about 65,000 local laborers (among them, in Ho Chi Minh-City and Dong Nai province alone more than 20,000 people were employed).

However, a closer analysis reveals: If we look at the state-owned enterprises (the public sector) and Joint Ventures with foreign companies (foreign invested sector), we will get a better vision of the labor and employment issue:

- After streamlining the state-owned enterprises during 1990-1992, the number of jobs in this sector decreased by 400,000, and the remaining number of jobs is about 1.78 million. In 1995, this number decreased by another 600,000, reducing the number of remaining jobs to 1.72 million.

- Meanwhile, the Joint Venture sector, with its advantages in terms of capital and land use conditions created only 90,000 jobs over five years.

This means that the two forms of business management, which are developing rapidly due to their advantages of tax preference treatment, land lease and access to capital resources were not able to create a considerable amount of jobs during the period 1991-1995.

This difficult situation in job-creation indicates the weaknesses of the incentive system for investors in the context that the most important relative advantage of Vietnam recognized by almost all analysts is a conceivably cheap, disciplined, and educated labour force.

However, after five years with the amount of six billions US-$ investment, 90,000 jobs were created in all sectors; the average cost was 66,700 US-$ per created job. In addition, taking into account the expected direct foreign investment, during the period 1996-2000 there were about 60,000 new jobs created annually. Anyway, the number of new jobs created each year was only about 5% of the annual increase of the total labour force! This was the calculation before the regional crisis!\(^\text{10}\)

Taking into account the decrease of jobs in the state-owned sector and the increase of jobs in Joint Ventures (mostly between state sector and foreign investors), the total number of jobs for the state sector and Joint Ventures during the five years declined. Which sector, then, has created new jobs?

According to the up-to-date statistical data for Ho Chi Minh-City, although the state sector occupied 70% of the total capital of the economy, it was the non-state sector that draw 77% of the labour force of the largest city in the country.

The data in the table below indicate the proportion of contribution to GDP from those sectors in Ho Chi Minh-City during the five years 1993-1997:

**Table 1: Proportion of contribution to GDP from economic sectors in Ho Chi Minh-City (%)**

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<tbody>
<tr>
<td>1. Total GDP</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>State economic sector</td>
<td>52.2</td>
<td>51.3</td>
<td>49.2</td>
<td>47.9</td>
<td>46.9</td>
</tr>
<tr>
<td>Non-state economic sector</td>
<td>40.4</td>
<td>40.5</td>
<td>39.7</td>
<td>38.8</td>
<td>37.4</td>
</tr>
<tr>
<td>Foreign investment sector</td>
<td>7.4</td>
<td>8.2</td>
<td>11.1</td>
<td>13.3</td>
<td>15.7</td>
</tr>
<tr>
<td>2. Total budget</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Domestic budget, therefrom:</td>
<td>64.3</td>
<td>64.1</td>
<td>60.0</td>
<td>61.6</td>
<td>64.9</td>
</tr>
<tr>
<td>State economic sector</td>
<td>42.9</td>
<td>37.6</td>
<td>29.5</td>
<td>27.0</td>
<td>25.6</td>
</tr>
<tr>
<td>Non-state economic sector</td>
<td>8.2</td>
<td>8.4</td>
<td>8.9</td>
<td>10.78</td>
<td>11.1</td>
</tr>
<tr>
<td>Foreign investment sector</td>
<td>1.8</td>
<td>4.8</td>
<td>7.5</td>
<td>9.5</td>
<td>9.2</td>
</tr>
<tr>
<td>3. Total employment</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>State economic sector</td>
<td>21.7</td>
<td>21.9</td>
<td>24.1</td>
<td>22.8</td>
<td>23.1</td>
</tr>
<tr>
<td>Non-state and foreign investment sector</td>
<td>78.3</td>
<td>78.1</td>
<td>75.9</td>
<td>77.2</td>
<td>76.9</td>
</tr>
</tbody>
</table>

This data reveals that the non-state sector created most of the new jobs, and it does so very rapidly and with low costs.

According to the economic report from the World Bank mentioned above, for an average state enterprise creating one job costs about US-$ 18,000 whereas it costs only US-$ 800 to do so for a small or medium-scale enterprise.

It is necessary to match this figures with the real situation of slowing-down of job creation starting from 1996 (before 1996 the increase of new jobs was in pair with the increase of the labour force). In 1997, for the first time since the implementation of DOI MOI, the employment rate fell under 0.6%. In agriculture and industry, labour and employment decreased 6.2% and 5.6% respectively.

The reduction in the industrial sector was due to the fact that industrial production demands more capital. While in other sectors, although productivity in the service sector was still low, over half of the surplus labour entered into the rural service sector and the rest into the urban service sector. The decline in the service sector caused many difficulties for this sector in attracting labour, which resulted in a higher unemployment rate.

Slow increase of the service sector reflected inactiveness of the banking system by its own difficulties and reduction of growth in the commerce and estate trading. Slow increase in tourism and hotel services happened due to less attraction of tourists as compared to other countries in the Asian region.
All these factors impacted immediately to employment, which is a sensitive and vulnerable sphere. A more noteworthy fact is labour and employment in rural areas where 90% of the poor are concentrated.

As mentioned above, the course of DOI MOI was initiated in rural areas, and at present, for coping with the new challenge from economic and fiscal crisis in Asia and the world and the demand of speeding up the cause of DOI MOI, rural areas and agriculture were defined as basic and motivation force for industrialization and modernization, the situation in the rural areas will strongly influence the urban areas, industry and the entire social-economic situation of the country.

Reducing poverty in Vietnam during the last few years was an impressive achievement. The above mentioned World Bank report recognized that the percentage of poor people dropped from over 70% in the mid-80s to 50% in 1993. Till now there are only 30-35% (this number will be more accurate after the adjustment in 1999) counted as poor. There are few countries in the world having such a rapid and pervasive economic growth.

Nevertheless, this report also warns that "This progress has been threatening" because "if without strong measures solving the present decline of economic growth, the poverty will increase considerably in the coming two years". Poverty increases closely with the surplus labour in rural areas. The number of labourers without employment will flow into urban areas while there are about six million labourers who are unemployed.

Unemployment and underemployment, especially among young people in the working age is a main reason for the increasement of social maladies like drug abuse, prostitution, robbery and Aids.

How to solve the problem of surplus labour in rural areas? At present, the Vietnamese government has many solution policies in terms of rural and agricultural development. It is easy to realize that the strategy for rural development will depend mainly on the capacity of creating employment in non-agriculture branches. Transformation of the production structure, diversification of occupations, moving a major part of agricultural labour from paddy and non-paddy agriculture or husbandry into food processing, services etc. The experiences from countries which successfully increased the income level in rural areas without increasing rural-urban migration indicate that this
success was due to strong development of rural industry. Vietnam tries to carry out rural-agricultural industrialization and modernization under difficult conditions: lack of capital, of technology, and lack of qualified cadres. At present, almost 24,000 enterprises in rural areas are operating on household level. About 15% of these households receive loans from banks, however, more than 70% of all households are in demand of capital.

Since the land law was issued in 1993, plantations increased rather strongly. Within five years up to 1998, the number of plantations was estimated as follows:

Table 2: Number of Plantations

<table>
<thead>
<tr>
<th>Province</th>
<th>Number of plantations</th>
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<tbody>
<tr>
<td>Lao Cai</td>
<td>3,640</td>
</tr>
<tr>
<td>Nghe An</td>
<td>3,200</td>
</tr>
<tr>
<td>Dak Lak</td>
<td>4,000</td>
</tr>
<tr>
<td>Binh Duong</td>
<td>1,539</td>
</tr>
<tr>
<td>Binh Phuoc</td>
<td>2,700</td>
</tr>
<tr>
<td>Lam Dong</td>
<td>4,963</td>
</tr>
<tr>
<td>Yen Bai</td>
<td>9,226</td>
</tr>
<tr>
<td>Phu Tho</td>
<td>200</td>
</tr>
</tbody>
</table>

In Yen Bai province alone, the number of plantations involved 11% of all peasant households in that province and they contributed over 60% of the export value of the province with 60 ha concentrating on forests. The average area per farm was 6.13 ha in which the forest area occupied 70% and cultivated land 13.7% of the total land. 29% of the plantations had an average land below 6 ha; 24% of the plantations had an average land of over 10 ha. The products from these plantations were sold very quickly, the trade share went up from 60% to 80%. Especially plantations that produced rubber, coffee and tea had a trade proportion up to 95%.

Exclusively in Yen Binh district, Yen Bai province, the analysis showed that the capital of these plantations occupied 70%. Loans from banks and private persons made up 26% and that from other sources 4%. On average, each farm had a capital of 14.3 million VND. For the plantations near district centers, the average capital was higher, between 20 million and 47 million VND.

It should be taken into account that the land source of these plantations from the state farms was 98%; the plantations with land transfer counted for 1.8% and the plantations with land changed from waste land into arable land by their own was 0.1%.

It should be emphasized that this kind of plantations - a special type of agricultural enterprises - were formed and developed primarily in hilly and mountain areas where more land is available. In contrast, in the delta areas where land is scarce, density high, and surplus labour redundant, this kind of plantations were not established.

The matter is that in areas with scarce land that are densely populated the development of small and medium-scale enterprises in the non-agricultural sector contributes to solve the most urgent social problem at present, i.e. employment for about 10 million labourers. Solving this issue will have a positive impact on other social-economic issues. As mentioned above, creating one job in small and medium-sized enterprises would require about 11 million VND (equivalent to 800 US-$) while in the state enterprises it would require about 240 million VND (equivalent to 18,000 US-$). The key factor is to adopt appropriate mechanisms and policies that may convince those who have capital and are willing to invest in processing and service enterprises in rural areas. If such mechanisms and policies are not adopted, the government would not have the capacity to solve the issue of surplus labour in rural areas, which is an obstacle for economic development and social stability in rural as well as in urban areas.
Together with promoting the development of small and medium-scale enterprises in industry and services, the development of the rural and agricultural sector should promote the industrial and service branches in order to enhance employment. This is particularly true for labour-intensive branches, e.g. garment, footwear, food processing and tourism.

In recent years, although the level of industrial growth in general had gone beyond the level of growth of services, the number of small and medium-sized private service enterprises was higher than that of industrial ones. This indicates the tendency of industrial growth based on large enterprises with large capital. The number of commercial companies increased three times while the number of construction and service companies increased two times. The small and medium-sized service enterprises increased because they were not restricted by state enterprises (comp. figure 2 on small and medium-scale private enterprises).

90% out of 5,000 industrial enterprises belong to four branches: food and beverage (56%), garments and footwear (9%), metal and metal products (17%), wood and paper industry (11%). In general, these industrial branches cost highly, but they are a potential for expending small and medium enterprises. However, till now the number of small and medium-sized enterprises occupied only 2% of industrial output and showed a slow growth. The reason for this slow increase was mentioned above. Nevertheless, due to limitations of production aiming to substitute import products, the export will become the driving force for production. In light industries, export requires competitive prices and strict administration. Except the case of exports based on quota or their own potential (e.g. exports of processed goods to Western Europe), all countries including China realized that small and medium-sized private enterprises could meet this demand.

While the development of small and medium enterprises was very slow, especially the enterprises using highly qualified labour and that possess a large export potential. In that firms labour demand is on the rise. Every year, the number of labourers increased about 1.33 million on average, from 1996 to 2010 there will be a demand of about 20 million new jobs.

*Figure 2: Small and medium-size private enterprises in 1994 and 1997*

![Figure 2](image_url)

Source: General Statistical Office.

The small and medium-scale enterprises will play a very important role in solving the demand of 20 million labourers in the coming fifteen years. Therefore, the idea to **rely on one’s own strength** in order to overcome the difficulties mentioned should be translated into specific supporting
mechanisms and policies. Public opinion should be developed in order to put small and medium-scale enterprises in a right position, creating good conditions for the development of those enterprises in order to use their potential thus contributing to the enrichment of the people, making the country strong, and the society civilized and equal.

In the past, it was Degree number 10 on agricultural management reform that created production and trade autonomy for peasants and thus initiated an impressive process of making the agricultural production and rural development prosperous, leaving strong positive imprints on urban and industrial development in the reform process. Today it would require a strong policy aiming at liberating small and medium-scale enterprises from unnecessary limitations in order to stimulate a new impetus. First of all, we have to make full use of processing industries, which are more labor-intensive and provide more products for export, especially food processing industries. This is not only in the interest of rural and agricultural development, but also contributes to speeding up poverty eradication programs that have been an outstanding achievement of DOI MOI, and moreover helps to solve unemployment problems in urban areas, pushing up industrial growth and exports.

Such impetus is worthy to expect, and hopefully it will be a policy solution that is in accord with the natural law, effective, capable of recovering the situation, socially acceptable, and in accordance with the people’s wishes.