Financial Development and the Financing, Funding and Liquidity Management of Firms: a post-Keynesian Approach with Reference to Vietnam

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Declaration for PhD Thesis

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With thanks to Jan Toporowski, Ngoc, Binh Tam, and my father, Perran, who will not now be able to read this.

Abstract

This thesis presents an original analysis of the firm in economic development as a firm that manages a balance sheet from which cash flow may be generated in the usual income and expenditure way that is common to most theories of the firm, but also through balance sheet operations designed also to maintain the liquidity of the firm. This analysis is based on the work of Michal Kalecki, Hyman Minsky and Josef Steindl and extends the post-Keynesian understanding of the firm to take account of balance sheet management, and applies it to firms emerging in a developing country in the transition from a centrally planned economy.

In the Keynesian tradition the banking and finance sectors play three distinct roles for the firm sector: financing, funding (replacing short term with long term liabilities) as well as providing the means for firms to manage their liquidity in order to protect themselves against the unexpected and meet their financial commitments. Hyman Minsky's balance sheet firm is supplemented with insights from Michal Kalecki, Josef Steindl and others to suggest that firms are heterogenous in their financing, funding and liquidity management strategies, that also vary according to the financial institutions available to the firm. Therefore, the impact of financial development on an economy will depend both on the dynamics of institutional change and the composition of the enterprise sector. A study of Vietnam demonstrates that the approach can help to explain the economic impact of financial development. A flow of funds analysis illustrates developments in financial flows between key sectors as a result of institutional reform and external capital flows. A closer study of the enterprise sector in which firms are organised according to size and ownership demonstrates heterogenous responses to financial development.

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Acronyms

ABL	Asset Based Lending
ADB	Asian Development Bank
Agribank	Bank for Agricultural and Rural Development
Agtex	Company No. 28
ANZ	Australia and New Zealand Banking Group Limited
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BCA	Bank Central Asia
Bao Viet	Vietnam Insurance Corporation
BIDV	Bank for Investment and Development of Vietnam
Biti’s	Binh Tien Consumer Goods Production Ltd
Cadivi	Vietnam Electric Wire and Cable Company
Casumina	Southern Rubber Industry Company
CEO	Chief Executive Officer
Cholimex	Cho Lon Investment and Import Export Corporation
CIEM	Central Institute for Economic Management
CIT	Corporate Income Tax
CNC	Computer Numerical Control
Comecon	Council for Mutual Economic Assistance
CPV	Communist Party of Vietnam
Dakruco	Dak Lak Rubber Company
DAF	Development Assistance Fund

DFID	Department for International Development
Biti's	Binh Tien Dong Nai Import Export Corporation Ltd
DRC	Danang Rubber Company
DRV	Democratic Republic of Vietnam
EVN	Electricity of Vietnam
FDI	Foreign Direct Investment
FETP	Fulbright Economics Teaching Program
FIE	Foreign Invested Enterprise
FLH	Financial Liberalisation Hypothesis
FoFs	Flow of Funds
FPT	Corporation for Financing and Promoting Technology
FYP	Five Year Plan
Garco 10	Garments Company No. 10
GC	General Corporation
GDP	Gross Domestic Product
Geruco	Vietnam Rubber Group
GFCF	Gross Fixed Capital Formation
GFS	Government Financial Statistics
GSO	General Statistics Office
HACC	Hanoi Construction Corporation
Hanosimex	Hanoi Textile and Garment Company
Haprosimex	Hanoi General Production and Import Export Company
HASTC	Hanoi Stock Trading Centre

HCMC	Ho Chi Minh City
HOSE	Ho Chi Minh City Stock Exchange
HSBC	Hongkong and Shanghai Banking Corporation
IDB	Investment and Development Bank
ICBV	Industrial and Commercial Bank of Vietnam
ICOR	Investment Capital Output Ratio
IFC	International Finance Corporation
IFS	International Financial Statistics
IPO	Initial Public Offering
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
IT	Information Technology
IZ	Industrial Zone
LDC	Less Developed Country
LLC	Limited Liablity Company
LUC	Land Use Certificate
LSS	Living Standards Survey
LT	Long Term
JICA	Japanese International Cooperation Agency
JSB	Joint Stock Bank
JSC	Joint Stock Company
JV	Joint Venture
Lilama	Vietnam Machinery Erection Corporation

MARD	Ministry of Agriculture and Rural Development
MFN	Most Favoured Nation
MITI	Ministry of Industry and Trade
MNC	Multinational Corporation
Mobiphone	Vietnam Mobile Telecom Services Company
MoD	Ministry of Defence
MoF	Ministry of Finance
MoFD	Ministry of Food
MoI	Ministry of Industry
MoPT	Ministry of Post and Telecommunications
MPC	Marginal Product of Capital
MPI	Ministry of Planning and Investment
Nhabeco	Nha Be Garments Company
NPL	Non-performing Loan
NS	Non-State
ODA	Overseas Development Aid
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares Regression
OTC	Over the Counter
PC	Parent-Child
PCI	Provincial Competitiveness Index
Petrolimex	Vietnam National Petroleum Corporation
PVN	Vietnam Oil and Gas Group

PIR	Principle of Increasing Risk
PPC	People's Committee
Protrade	Binh Duong Production and Import Export Company
RBV	Resource Based View
ROW	Rest of the World
RVN	Republic of Vietnam
Satra	Saigon Trading Corporation
SBV	State Bank of Vietnam
SCIC	State Capital Investment Corporation
Seaprodex	Vietnam National Sea Products Corporation
Seaprodex Danang	Danang Sea Products Import Export Corporation
SITC	Standard International Trade Classification
SME	Small and Medium Sized Enterprise
SOAS	School of Oriental and African Studies
SOCB	State Owned Commercial Bank
SOE	State Owned Enterprise
SRV	Socialist Republic of Vietnam
ST	Short Term
Tacombank	Tan Viet Joint Stock Commercial Bank
Tamexco	Tan Binh Production Service Trading and Export Company
Techcombank	Technological and Commercial Joint Stock Bank
TFC	Textile-Garment Financial Co
TVE	Township and Village Enterprise
UNDP	United Nations Development Programme

UNIDO	United Nations Industrial Development Organization
US	United States
USBTA	United States Bilateral Trade Agreement
USCS	United States Commercial Service
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
Ut Xi	Ut Xi Aquatic Products Processing Company
VAT	Value Added Tax
VBARD	Vietnam Bank for Agriculture and Rural Development
VCCI	Vietnam Chamber of Commerce and Industry
VCP	Vietnamese Communist Party
VDF	Vietnam Development Forum
VEAM	Vietnam Engine and Agricultural Machinery Corporation
VGCL	Vietnam General Confederation of Labour
VIC	Vietnam Investment Group
Vietcombank	Bank for Foreign Trade of Vietnam
Vietsovpetro	Vietsovpetro Joint Venture Enterprise
Viettel	Military Telecom Corporation
Vinacafe	Vietnam Coffee Corporation
Vinachem	Vietnam National Chemical Corporation
Vinacomin	Vietnam Coal and Mineral Industries Group
Vinaconex	Vietnam Construction and Import Export Corporation
Vinafood 1	Northern Food Corporation

Vinafood 2	Southern Food Corporation
Vinaincon	Vietnam Industrial Construction Corporation
Vinalines	Vietnam National Shipping Corporation
Vinamilk	Vietnam Dairy Products Company
Vinapaco	Vietnam Paper Corporation
Vinaphone	Vietnam Telecom Services Company
Vinapimex	Vietnam Paper Corporation
Vinashin	Vietnam Shipbuilding Industry Group
Vinataba	Vietnam Tobacco Corporation
Vinatex	Vietnam National Textile and Garment Group
VNCC	Vietnam Cement Corporation
VND	Vietnam Dong
VNPT	Vietnam Post and Telecommunications Group
VNR	Vietnam Railways
VOSCO	Vietnam Ocean Shipping Company
VSC	Vietnam Steel Corporation
VSIC	Vietnam Standard Industrial Classification
VSIP	Vietnam Singapore Industrial Park
WDI	World Development Indicators
WTO	World Trade Organization

Chapter 1: Introduction

This thesis will present an original analysis of the firm in economic development as both a firm that manages a balance sheet from which cash flow may be generated in the usual income and expenditure way that is common to most theories of the firm, but also through balance sheet operations designed to maintain the liquidity of the firm. Building on the work of Michal Kalecki, Hyman Minsky and Josef Steindl it will further make the case that as firms may differ in their ability to access outside finance and also manage liquidity then financial deepening and the liberalisation of financial markets and the banking system (financial development) will not affect firms equally, and the overall impact of financial development will depend in part on the composition of the firm sector. Moreover, although the 'balance sheet firm' adopted in the thesis is developed from observations on firm behaviour in developed economies with mature financial institutions, key principles behind the approach can be used to elucidate firm behaviour in the absence of mature financial institutions, as well as in periods of development. The approach proposed in this thesis also suggests a role for the state in the absence of mature financial institutions. However, as will be demonstrated in a study of the experience of Vietnam, state intervention may be problematic for reasons predicted by the approach proposed in the thesis.

The thesis proceeds in three stages:

First it will be argued that unlike more orthodox theories of the firm the balance sheet firm developed in this thesis suggests that firms are heterogenous with respect to the financial system in the following ways: the availability of outside finance is a function of the firm's 'entrepreneurial capital', therefore the size of investments is in many ways linked to the size of the firm. Moreover, in the presence of 'fundamental uncertainty' firms will seek to manage their liquidity such that they can meet their commitments in the event of a shock to their primary business activities. It will be argued after Steindl and Kalecki that 'small' and 'large' firms are able to manage liquidity in different ways, with larger firms better able to survive the impact of shocks.

Second, it will be argued that firms, therefore, interact with the finance and banking sector in different ways. This is particularly the case in developing countries where finance and banking sectors are under development. Moreover, it may be the case that the strategies of firms in developing countries may differ from firms in developed capitalist economies with mature financial sectors (the concern of Steindl and Kalecki). Firms may also adapt their strategies in response to the development of financial institutions.

Third, as developing countries lack large concentrations of entrepreneurial capital, and financial services are underdeveloped then there is a case for government intervention in the allocation of rents and the financing of large firms undertaking capital intensive projects. Assuming that the distinctions between large and small firms are valid then this has implications for government policy with respect to the firm sector, and particularly with regard to the financial activities of state supported firms and other large firms as the finance sector develops. As post-Keyensian models tend to invert the relationship between savings and investment this has further implications for the financing of the firm sector, depending on the distribution of profits in the economy.

These ideas will be explored in the context of Vietnam, a country that has gradually undertaken substantial reform of its enterprise sector and finance and banking sector and that has experienced recent large inflows of foreign capital. The Vietnamese government has also supported a state owned enterprise sector that is gradually being granted autonomy. State firms are, over time, being forced to become less reliant on the state for finance and liquidity and begin to operate in response to market signals. Moreover, state firms, themselves, are far from homogenous and are responding to economic and financial development in different ways.

As this thesis is not a straightforward test of a hypothesis, but an exploration of the import of a set of theoretical ideas a particular methodological approach will be followed. This will be presented in the next section and will be followed by an outline of the thesis.

1.1. Methodology

A key methodological debate in economics is that between positivism and critical realism. The debate rests on the epistemological and ontological distinctions between different approaches to the study of economic life. Table 1 presents the differences between positivism and critical realism.

Table 1: Positivism and Critical Realism

	Positivism	Critical Realism
Ontology	Single objective reality	Domains of real, actual and empirical
Epistemology	Knower and knowledge are independent	Knower inseparable from transitive dimension of knowledge
Axiology	Inquiry is value free	Inquiry is value-laden but not value-bound.
Causation	Detectable through detection of event regularities	Causation unrelated to event regularity, but explained by underlying causal mechanisms and how they produce observable events.
Generalisation	Time and context free generalisations from event observation possible	Generalisations from underlying causal mechanisms more reliable than from event observation
Primary mode of inference	Induction	Retroduction

Source: Adapted from Courvisanos and Mackenzie (2011)

Critical realism is most closely associated with the work of Roy Bhaskar (1978). A distinctive feature, and the departure from more positivist approaches is the emphasis on the underlying mechanisms that cause events, rather than the events themselves (Courvisanos and Mackenzie 2011).

Rather than locate the field of study in a single, objective reality critical realism asserts that there are three levels to reality - the real, the empirical and the actual. Empirical observations - observed phenomena - are understood to be related to underlying structures that need to be understood if phenomena is to be explained. Positivist approaches, on the other hand, are content with observed relationships between (sense observed) empirical phenomena. Causality is induced from event regularities, and there is no attempt to identify causal mechanisms (Courvisanos and Mackenzie 2011). Second, whilst positivist approaches in economics tend to call upon a limited range of research methods, critical realism advocates that the choice of method should depend on the object of study (Lawson 2003). Third, the analyst brings with them ideology and experience. Whilst the world is considered to be separate and independent of the observer, impartial observation is impossible. Finally, the social world is assumed to be 'open' ('event regularities are not ubiquitous… due to the multiple, and perpetually shifting mix of, causes of events' (Lawson 1999)), although event regularities are assumed to occur 'under specific conditions, in certain realms' (Lawson 1999). Because the social world is not and cannot be 'closed', event regularities cannot be explained using analytical tools that are themselves confined to closed systems. In essence statements of the type 'if event x, then event y', are non-sensical (Graca Moura and Martins 2008). Nevertheless, critical realists do not deny that event regularities do occur. They are, ex-post, regularly observed. There may, however, be different causes, and event x need not always and everywhere give rise to event y, for reasons to be found in the underlying structures of the social realm. These are termed 'demi-regularities'.

The primary objective of critical realist analysis, therefore, is the uncovering of the fundamental causes of phenomena or 'retroduction':

> 'What emerges as essential in science, then, is not the framing of event regularities but rather the movement from observations on specific phenomena to hypotheses about their underlying causes.'
>
> (Graca Moura and Martins 2008, p. 205)

Despite the emphasis on open systems critical realists do accept that some degree of 'abstraction' is often necessary, and have been criticised accordingly (Blaug 2003). Critical realism's notion of 'abstraction' however does not imply the exclusion of that which is not under study. Instead, phenomena of interest is brought 'into focus'; crucially, what is out of focus is still understood to have influence. Mainstream economics, on the other hand, is criticised for 'isolating' aspects of the social world, and so denying the possible impact of excluded phenomena (Lawson 1999). This is defended on the grounds of *ceteris paribus*, or the need to develop certain concepts prior to their analysis in the social sphere (Blaug 2003). Proponents of critical realism in turn argue that only if *ceteris paribus* is realistic is this permissible, and it rarely is (Graca Moura and Martins 2008). Moreover, whilst modelling something in an artificial closed system may have some merit it makes no sense then to apply it to an open system (ibid.). This leads proponents of critical realism to deny certain methodologies, in particular econometrics, abstract mathematics and models.

Some post-Keynesians, chiefly Lawson (1999) and Dow (1999) adopt critical realism in order to distinguish themselves methodologically from mainstream economics, and also to provide themselves with greater coherence as a school. This has met with opposition on a number of grounds. Walters and Young (1999) argue that economists such as Davidson and Lavoie included in the post-Keynesian cannon are essentially realist: their concerns are primarily substantive theoretical issues and the relationships between empirical phenomena. For one reason or another they have not engaged in methodological debates or explicitly explored underlying structures in order to explain their observed relationships between empirical variables. Others - Straffa and Kalecki are named - also use deductive techniques, and so would be excluded from the the post-Keynesian school if critical realism was determined to be its methodological basis.

As this thesis draws closely on the work of Kalecki it is worth considering further his merits as a critical realist. Whilst it is true that he did develop mathematical models and make use of econometrics, as Walters and Young (1999) argue he had much in common with critical realist approaches. On one level his analysis of the macro economy drew heavily on manipulation of national accounting identities (also called upon in this thesis). These, whilst essentially empirical observations, can be considered as 'abstractions' in the sense described by Lawson (1999). Kalecki himself also understood the parameters of such equations to take on different meaning depending on the institutional structure in question. For example, in responding to Polish critics who argued that his extended Harrod Domar model was an attempt to develop a 'universal theory of growth', Kalecki,

> 'noted that, on the contrary, 'to each social system there corresponds an appropriate theory of growth', a claim that he supported by 'showing that the same formula for the rate of growth of national income should be interpreted in a different fashion depending on the social system we deal with'. In a socialist economy the three coefficients **m**, **a** and **u** were all determined on the supply side, the first two by the decisions of

> the planning authorities. In a capitalist economy, in contrast, both **u** and **m** were demand-determined, to a greater or lesser degree. 'The formula will remain entirely correct in a laisser-faire capitalist economy', he concluded, 'but the interpretation of the coefficients is quite different"
>
> (Jefferson and King 2011, p. 968)

Jefferson and King go on to identify Kalecki's 'basic methodological principles' as to:

> 'always deal explicitly with a capitalist system, not with a classless, non-monetary, simple commodity-producing economy; use formal analysis where it is useful, including mathematics, charts and diagrams and statistical analysis; but never forget that these techniques are employed in connection with the real problems of a real capitalist economy'.
>
> (Jefferson and King 2011, p. 966)

Jan Toporowski (1991) suggests further that Kalecki's theoretical arguments are 'directed by plainly empirical considerations', and deployed in order to 'identify the determinants of those variables and processes that were of crucial importance to policy-makers' (Toporowski, 1991, p. 93, quoted in Jefferson and King 2011).

One difficulty adopting Kalecki's theories in empirical study is that the analyst has a good idea as to underlying causality behind observed relationships, and moreover, as suggested above although Kalecki's economic models are abstract in the critical realist sense they are intended to represent the capitalist economy as a closed system (as defined by Lawson). This notion that a social system can contain fixed relationships, or event regularities comprises an essential component of Andrew Brown's critique of critical realism in economics and his concept of 'systematic abstraction' (Brown et al. 2002, 2007).

Whilst sympathetic to critical realism and its aims Brown et al. argue that there are methodological difficulties in the 'synthesis stage' of analysis:

> 'Lawson's account of abstraction is, in our view, highly insightful, offering much to critical realism and to social theory more generally. It is an account that is intimately bound up with, and serves to illuminate from a new angle, the general critical realist approach to method in social science. Our key argument, however, is that the critical realist account of abstraction, and hence the critical realist method in general, is slanted in focus (this applies not just to Lawson, but to all critical realist literature on the topic). Overriding emphasis is given to the 'abstract' stage of science, namely the movement from the apparent to the real. The scientist who seeks to reconstruct the concrete using knowledge gained from abstract sciences is little helped by critical realism. In alternative Marxist terminology, critical realism, insofar as it offers insight on method, emphasises the 'method of enquiry' to the neglect of the 'method of presentation'. The aim is to locate the 'real essence' of phenomena; the corresponding 'synthesis' moment of science involved in reintegrating the concrete is relatively ignored.'
>
> (Brown et al. 2002, p. 779)

Instead, they argue that rather than isolate 'localised' demi-regularities the analyst can identify 'system wide' event regularities that are 'defined over a collection of individuals across the capitalist system, rather than being restricted to a particular individual or local group of individuals' (Brown 2007). The crucial distinction is that such system wide event regularities define the system - Brown is concerned with those that characterise the Capitalist system. In their absence the system would collapse:

> 'Collective event regularities can be shown to contradict the critical realist analysis of event regularities. Consider the example of 'purchasing power'. For any individual commodity, to be sure,

> the purchasing power that it confers upon its owner need not be actualized, i.e. the commodity may not be sold. Therefore, from the immediate, local perspective of individual commodity owners, the sale of commodities is not an absolutely strict event regularity. But if commodities in general did not exchange at appropriate ratios, for more than but a few days, then the distribution of resources that must occur if the necessities of life are to be maintained, in a commodity producing economy, would not in fact occur and the social system would collapse, the purchasing power of commodities along with it. Thus the collective actualization of purchasing power, i.e. the widespread exchange of commodities across the system as a whole, is a strictly regular occurrence for the duration of the existence of capitalism.'
>
> (Brown 2007, p. 509)

This leads Brown to take issue with the critical realist assertion that social reality is many layered. Instead, 'the conclusion to be drawn, when taking a system-wide and historical perspective on capitalism, is that the term 'social structure' refers both to social relations and to social practices (and vice versa). *Contra* critical realism, social relations are not 'deeper' than, underlying or interacting with, social activities. Rather, there is one single actuality to which concepts of 'social relation', 'social activity' and 'social structure' all refer, albeit with differences in emphasis. This actuality is the capitalist system as a 'whole in essence', focused upon by systematic dialectics' (emphasis in original) (Brown 2007). This leads Brown to take issue with the research agenda implied by a critical realist perspective:

> '…[T]he essential task facing political economy is by no means to uncover multiple essences that are somehow 'deeper' than the ongoing activities of day-to-day life within capitalism. The orientation towards the method recommended by critical realism, according to the argument above, is quite wrong in this crucial

> respect. Instead, political economy must reconstruct or reorder, in thought, familiar commonsense economic activities, relations, monetary forms, etc. so as to fathom their role or function in the self-reproducing capitalist system that they constitute. Activities, relations and forms initially appear in a confused and partial manner within the commonsense notions of everyday capitalistic life. Political economy must go beyond the initial confusion in order to comprehend how the manifold commonsense entities constitute a single, self-reproducing system. Economic theory should reveal that, and how, ongoing actualities function in the workings of capitalism.'
>
> (Brown 2007, p. 514)

This is pursued in Arestis, Brown and Sawyer (2003) who take issue with the critical realist pursuit of 'yet more hitherto unknown essential structures and mechanisms' as explanations for observed demi-regularities. Instead, the 'criterion of science must be the degree to which the theory developed successfully accounts for the many fundamental features of the economy, features already known to the investigator and so in no need of hypothesis.' (Arestis, Brown and Sawyer 2003, p. 5) The theories are a means to shed light on the system under study:

> 'Abstracting the mode of interconnection of structures, mechanisms and events, thus, does yield new knowledge to the investigator, but this is not some previously unknown entity, rather it is a new found comprehension of the function of given entities or aspects within the system that they constitute.'
>
> (Arestis, Brown and Sawyer 2003, p.3)

Such an approach has striking echoes of Josef Schumpeter's discussions of methodology in economics. Like Kalecki, Schumpeter is also accused of falling short of the requirements of a true proponent of critical realism. Graca Moura points to his attempt to marry concepts confined to a closed system (equilibrium and static models) to a dynamic open system, and argues that the approach is incompatible (Graca Moura 2002). Nevertheless, if one disregards the possible shortcomings in his own analysis of business cycles and entrepreneurship and looks instead at his discussions of 'pre-analytic' vision and his 'instrumentalist' methodology there are useful insights to be gained, and these will serve to guide the analysis in this thesis.

For Schumpeter any research or analysis stems from the analyst's 'vision' of the world, that is itself derived from personal experience, academic training and so forth. This vision frames the stating of the problem and the method of enquiry. The analyst forms a number of propositions and assumptions and these guide his analysis:

> '[I]n order to be able to posit ourselves any problems at all, we should first have to visualize a distinct set of coherent phenomena as a worthwhile object of our analytical efforts. In other words, analytical effort is of necessity preceded by a preanalytic cognitive act that supplies the raw material for the analytic effort. In this book, this preanalytic cognitive act will be called Vision.'
>
> (Schumpeter 1954, pp. 41)

Shionoya (2004) argues that Schumpeter introduced instrumentalism into economics, although his instrumentalism differs from that associated with the likes of Friedman. The role of the theory is to derive useful results that shed some light on the world:

> '[Schumpeter] asserted that fitness to reality is a necessary condition for a theory to be useful. Fitness of theories to reality refers to the ability of theories to describe, organize, and explain a body of phenomena, not the predictive value alone, unlike the contemporary narrow version of instrumentalism.'
>
> (Shionoya 2004, p. 133)

Schumpeter took issue with the notion that the purpose of empirical economic inquiry was the verification of a theory as empirically verifiable or falsifiable:

> ‘We must first agree on what we mean by ‘verification.’ Any judgment of fact that is not analyzed and elaborated cannot actually prove the truth or falsity of a theoretical statement. It would not even be true to say that observations of statistical or historical facts could show us whether or not a specific theory is consistent with them. For a very real relationship may be so concealed by other factors that we can understand nothing about it without an analysis that digs deeply into the situation itself. Therefore only a more modest goal can be attained – namely, to ascertain how the relationships asserted by a theory are perceptible, or to put it differently, how much a theory contributes to an understanding of the situation.’
>
> (Schumpeter 1954, p. xiv)

Theory, therefore, is a means to guide the researcher's exploration of available data. In this Schumpeter has much in common with Brown’s systematic abstraction and Arestis et al’s discussion of the role of the analyst. Moreover, Schumpeter also took a pragmatic approach to empirical analysis, recognising that data are not always comprehensive or reliable. Quantative data, for example, might not always be available. He suggested three criteria when exploring data:

> “1. When our theory provides a description that allows quantitative expressions in principle, and when the data required for a test of that description are given, the theory should entail quantitative results that agree with the data.
>
> 2. When a theory merely gives a description that does not permit any quantitative expression in principle or because of the limited availability of data, the theory should make us realize that the fact in question is something to be expected by and large on the basis of the theory.

> 3. When neither is the case, a theory should indicate the concrete circumstances or concrete disturbing causes as well as the direction and exact or approximate extent of their influences, so that one can understand the situation by making appropriate modifications.”
>
> (Schumpeter 1954, p. xv)

For Schumpeter, then, theory is not solely intended to predict but to organise, classify and reconstruct 'otherwise chaotic facts'. As for Arestis et al. in applying a ‘vision’ comprised of ‘masses of known structures, mechanisms and events’ the analyst can attempt to ‘see the wood for the trees’ (Arestis, et al. 2003, p. 5). The first step, though, is to select the theory and its components. The analysts then progress to available data.

The general objective of this thesis is to understand the changing relationship between the firm and the financial sector in the process of economic development. However, rather than adopting the propositions (or event regularities) commonly associated with more mainstream approaches it will develop an approach to the firm derived from the works of a number of post-Keynesians, with a particular emphasis on Michal Kalecki and Josef Steindl. It will isolate a series of relationships that are sensitive to institutional developments in the banking sector, asset markets and also those institutions that determine capital flows, and explore their implications for our understanding of financial development in developing countries and its effect on the firm and the enterprise sector as a whole. It is worth emphasising that, in the spirit of critical realist approaches, it will always be born in mind that other factors are at play, and that it cannot be claimed that the topics discussed in this thesis are the only explanatory factors.

This thesis will be structured as follows:

Although the thesis will use a post-Keynesian approach to the firm it is acknowledged that other approaches to the firm are also valid and have explanatory power. However, it will be argued in Chapter 2 that most more mainstream approaches to the firm stem from a set of assumptions and propositions that exclude the possibility of the the approach developed in the remainder of the thesis. Such approaches, it is argued, stem both from a different pre-analytic vision (or visions) and, for the most part, are derived from analysis in closed systems. As such, if Lawson's critique of mainstream economics is accepted, the application of such models to open systems has limited explanatory value.

Chapter 3 will develop a particular aspect of the post-Keynesian firm from the works of Michal Kalecki and Josef Steindl, also making use of Hyman Minsky's 'balance sheet firm'. The objective of the chapter will be to identify a series of 'event-regularities' or propositions that are derived from the vision and analysis of Kalecki and Steindl. The chapter will suggest that strategies for liquidity management depend on firm size and market power. These differences are a source of heterogeneity among firm populations that imply the interaction between firms and the finance sector is dependent on the distribution of entrepreneurial capital, the type, size and availability of asset markets and impacts on the size and quality of investments as well as the rates of firm survival.

Chapter 4 will present and critique the financial liberalisation hypothesis from a post-Keynesian perspective. It will then introduce post-Keynesian literature of firm financing and firm funding in developing countries. It will then argue that strategies for financing, funding and liquidity management depend on underlying institutional structures that generally change over time. The outcome of financial liberalisation will depend on the composition of the enterprise sector and firm strategies in response to new asset markets and banking regulations. The outcome of Chapters 3 and 4 will be a series of propositions that will then be explored in an analysis of a Vietnam, a developing country that has undertaken a series of reforms of its enterprise, finance and banking sectors in the context of fluctuating capital inflows.

Chapters 5 to 7 will be an empirical study of Vietnam. The objective is not to 'explain' recent Vietnamese economic history, but to adopt Schumpeter's methodological approach with the objective of exploring the validity and implications of the 'pre-analytic vision' and propositions developed in Chapters 3 and 4. Chapter 5 will present the developments in the financial sector, the banking sector and the enterprise sector since 1975. This will serve as an account of the changing institutional structures in Vietnam. Chapter 6 is a flow of funds analysis of Vietnam since the mid-1990s. This will serve two purposes. The first is to illustrate how changing institutions affected aggregate capital flows and the net position of the enterprise sector in relation to the government, banking and foreign sector. It will also explore the funding, financing and liquidity management behaviour of different types of firm in light of institutional developments and foreign capital flows. Chapter 7 will look more closely at the strategies of firms in Vietnam in the context of financial development and enterprise sector reform. Case studies of different categories of firm will be used to identify the means by which firms manage liquidity and finance and fund investments. An analysis of of the balance sheets of firms listed on the Hanoi Stock exchange will explore the uses firms make of the proceeds from stock issues.

Chapter 8 will conclude.

Chapter 2: The Abstract Firm

> …'Economic Evolution is gradual... And though an inventor, or an organiser, or a financier of genius may seem to have modified the economic structure of a people almost as a stroke; yet that part of his influence... [has] done little more than bring to a head a broad constructive movement which had long been in preparation. Those manifestations of nature which occur most frequently, and are so orderly that they can be watched and narrowly studied, are the basis of economic as of most scientific work...'
>
> (Marshall 1997, p. xiv)
>
> 'In the literature of economics the firm of the real world has long lived in that uncomfortable no-man's-land between the high and dry plateaus of 'pure theory' and the tangled forests of 'empiric-realistic' research'.
>
> (Penrose 1995, p. 9)

2.1. Introduction

This and the following chapter are intended to introduce contrasting approaches to the firm in order to demonstrate (in Chapter 4) that our understanding of the impact of financial development and financial deepening on the economies of developing countries depends, in part, on the approach to the firm chosen.

This chapter argues that for non post-Keynesian approaches there are no *a priori* differences between firms in their relationship with the finance sector, and so in the impact of financial development on firms in a developing economy. The resolution of market failures in finance sectors impacts all firms equally, and *a posteriori* differences are predominantly the result of entrepreneurial and managerial ability and historical accident. In approaches to the firm that are not built on theories of market failure such as the resource based view difference predominantly lies in the ability of the entrepreneur to negotiate finance with representatives of the banking and finance sectors. This approach, it is argued, is in the Marshallian tradition, in that it posits a 'representative firm', whose characteristics can be assumed to apply to all firms, although empirically they may differ. This contrasts with post-Keyensian approaches to the firm discussed in Chapter 3 that point to explicit differences between firms, and in the work of among others, Josef Steindl, Alfred Eichner and Michal Kalecki, differences between firms in the nature of their interaction with the finance sector. These *a priori* differences suggest that the impact of financial development on an economy will depend in part on the composition of the enterprise sector.

This chapter will be organised as follows. Section 2.2 will introduce Alfred Marshall's theory of the representative firm, some critiques and Marshall's own doubts as to its validity. Section 2.3 will discuss three approaches to the firm, which take as their foundation the idea that firms primarily exist as a means for economic agents to overcome market failure. Adopting the terminology of Christos Pitelis and David Teece these are referred to as 'market superiority' approaches (Pitelis and Teece 2009). Section 2.4 will outline a number of approaches that will be loosely termed 'resource based'. Section 2.5 will conclude.

2.2. Alfred Marshall and the Reconciliation Problem

The notion that all firms can be understood with reference to one homogenous model of the firm can be traced at least to Alfred Marshall's 'representative firm'. From a methodological perspective Marshall seems to have been caught somewhere between the positivist position and something resembling critical realism. He took the approach that the economist should study the economy with a lens derived from modelling within a closed system. However, he also appears to have recognised that working on economic phenomena were other forces that were difficult to isolate, but that had an observable impact on economic actors.

Marshall believed that an economic theory should be derived from empirical observation. However, the theorist should be careful to distinguish one-off historical events from underlying and universal trends. Marshall himself contrasted his *Principles of Economics* with *Trade and Industry* along these lines. *Principles* was an exploration of the phenomena so frequently recurring they could be incorporated into a general model of economic life. *Trade and Industry* was an analysis of the 'superstructure', which displayed the results of 'constructive movement' and historical anomaly in equal measure. Pratten (1998) discusses these tensions in Marshall's work, arguing that ultimately,

> 'Marshall's inability to escape this inappropriate image of science stifles any systematic elaboration of a structured ontology. Regarding the second volume, his initial indecision, frustrated progress, and final abandonment reflect the stalemate Marshall seems to have reached. He appears unable to move forward and address in a sustained manner the issues he identifies as important since he lacks a conception of science that would encourage such elaborations. At the same time he is unwilling to step back because of the limitations he increasingly associates with his statical treatment.'
>
> (Pratten 1998, pp. 159-160)

The capitalist firm presented particular difficulties to Marshall. As a legal entity it clearly existed. However, it was difficult to isolate the forces it represented. Late in *Principles* it become apparent to Marshall that if firms could benefit from internal economies of scale then it was possible that individual or small groups of firms might come to dominate industries. In the process they would undermine the concept of equilibrium, the key organising principle of Marshall's model. Economies of scale would 'give a very great advantage to large producers' and production could fall 'entirely into the hands of a few large firms.' If this happened 'the normal supply price cannot be isolated' and prices would instead be 'influenced by the incidents of the campaign between rival producers, each struggling for an extension of territory, as scarcely to have a true normal level' (Marshall 1997, p. 316). Marshall referred to this as the 'reconciliation problem': how to reconcile the existence of equilibrium with the implications of large scale internal economies. He developed two solutions to the problem. One was to argue that in most industries firms would face such difficulties expanding the market for their output that the advantages derived from large scale production would disappear. The other was to equate the lifecycle of the firm with that of the entrepreneur. In this way individual firms would be unable to fully exploit any available internal economies (Hart 1996):

> 'Nature still presses on the private business by limiting the length of the life of its original founders, and by limiting even more narrowly the part of their lives in which their faculties remain full of vigour. And so, after a while, the guidance of the business falls into the hands of people with less energy and less creative genius, if not with less active interest in its prosperity'.
>
> (Marshall 1997, p. 316)

At any moment 'one can discern one particular size of firm which is in a sense normal: it is neither a young, growing firm, nor a decaying firm; that it is not a firm of unusually big size or with unusual advantages; that the normal economies that can be got in this industry (with the given size of the industry) are open to firms of such a representative size; and that the representative firm tends to increase in size as the industry expands' (Marshall 1997, p.316). Marshall elaborates the point with a metaphor of a forest, in which a tree might grow more vigorously than others, but after some time 'age tells on them all... and [although] the taller ones have better access to light and air than their rivals, they gradually lose vitality; and one after another they give their place to others' (Marshall 1997, p. 316).

In the 1920s Marshall's representative firm became the subject of the 'cost controversy', in which the implication of scale economies for equilibrium (and so Marshall's solution to the reconciliation problem) was hotly debated[1]. In the debate Lionel Robbins argued that Marshall's representative firm was a superfluous afterthought:

1. See Sraffa et al. (1930) and Harcourt and Blankenburg (2002)

> 'There is no more need for us to assume a representative firm or representative producer, than there is for us to assume a representative piece of land, a representative machine, or a representative worker. All that is necessary for equilibrium to prevail is that each factor shall get at least as much in one line of production as it could in any other: as much of course, including all advantages and disadvantages of work, hiring or investment'.
>
> (Robbins 1928, p.28)

Robbins went on to argue that it was not a 'statistically average firm'. It would 'only emerge arithmetically under conditions when all present tendencies to change had reached a state of equilibrium' (Robbins 1928). Moreover, individual firms themselves need not be in equilibrium, as long as in aggregate they are. Marshall himself had allowed for variety within the population of firms in an economy, with respect to entrepreneurial ability, cost structure and innovative performance (Foss 1994).

With regard to theories of the firm the cost controversy allowed for two possible conclusions: that Marshall's representative firm was excessively abstract, but unnecessary as long as equilibrium conditions were met[2]. Attention should instead be directed at investigating the characteristics and behaviour of the firm in an equilibrating world. Or, if equilibrium was impossible, and monopolistic competition dominated in a world characterised by internal economies then an altogether new approach should be developed.

Towards the end of his life Marshall grappled with this question, asking whether his representative firm and the owner/ manager firm were a true reflection of the forces at work. Since the emergence of the joint-stock company the entrepreneur had detached himself from the firm, and firms could grow independently of the energies of the owner. 'Vast joint-stock companies' can 'in favourable circumstances... secure a permanent place in the work of production' (Marshall 1997, p. 316). Marshall seems to have sided in the

2. There is, however, a view that Marshall abandoned the second volume of *Principles* because he no longer subscribed to the neo-classical research programme, particularly the implications of internal returns to scale for static equilibrium. See (Thomas 1991) and (Moss 1990).

end with his initial assessment, arguing that such companies would eventually see their 'force' diminish in the face of competition from younger and smaller rivals (Hart 1996).

The significance of Marshall's representative firm is difficult to measure. In one respect Robbins was right. It was simply an instrument adopted by Marshall to ensure the stability of his model. It was not intended as a theory of the capitalist firm. If, as Robbins maintained, Marshall's model stands up to scrutiny without it, then it loses much of its significance. On the other hand Marshall's own fear was that if diversified joint-stock companies that exhibited internal returns to scale proved to be significant manifestations of nature then the model developed in his *Principles* would require significant revision. The remainder of this chapter will argue that the majority of those who have concerned themselves with developing a theory of the capitalist firm have sided with Marshall. Those that did not, discussed in the following chapter, take as their point of a departure an altogether different economic system, with implications for our understanding of the economic impact of financial development.

2.3. The Firm as an Antidote to Market Failure

This section outlines 'market superiority'[3] approaches to the firm in which the firm is derived from the presence of market failures. It will outline three dominant approaches, each of which has inspired a large literature. Section 2.3.1 will discuss the contributions of Ronald Coase and Oliver Williamson, loosely termed the 'Transaction Costs' approach[4]. Section 2.3.2 will focus on the work of Harold Demsetz and Armen Alchian, who expanded the market superiority approach further. Section 2.3.3 will discuss the evolutionary approach, associated with Nelson and Winters.

2.3.1. Coase and Williamson: Transaction Costs

In 1937 Ronald Coase sought to develop a theory of the firm that was 'not only realistic in that it corresponds to what is meant by a firm in the real world, but is tractable by two of the most powerful instruments of economic analysis developed by Marshall, the idea

3. The phrase is borrowed from Pitelis and Teece (2009)

4. Also often referred to as 'managerial theories of the firm'.

of the margin and that of substitution, together giving the idea of substitution at the margin' (Coase 1937, pp. 386-387). He began his analysis with the observation that the coordinating mechanism at work in the 'economic system as it is normally treated by the economist'[5] 'does not apply' in the firm, where a hierarchy takes precedence over the price system:

> 'A firm, therefore, consists of the system of relationships which comes into existence when the direction of resources is dependent on the entrepreneur.'
>
> (Coase 1937, p.393)

According to Coase the entrepreneur is always calculating the costs of 'exchange transactions' and asking whether they are greater when conducted within the boundaries of his firm, or according to the market mechanism. Firms exist when the entrepreneur concludes that he can manage transactions more cheaply within the structure of a firm than in the open market. Size then becomes a function of entrepreneurial ability and limits to size subject to 'diminishing returns to management':

> 'Other things being equal, therefore, a firm will tend to be larger:
>
> a. the less the costs of organising and the slower these costs rise with an increase in the transactions organised.
>
> b. the less likely the entrepreneur is to make mistakes and the smaller the increase in mistakes with an increase in the transactions organised.
>
> c. the greater the lowering (or the less the rise) in the supply price of factors of production to firms of larger size.'
>
> (Coase 1937, p. 397)

Despite claims to realism Coase's firm is confined to a world defined by its degree of deviation from a perfect neo-classical representation of an abstract economy. Coase's firm exists as a response to market failure and, like Marshall's representative firm, it must

5. The 'economic system' he referred to was that 'given by Sir Arthur Salter'.

be subject to the rules that govern economic agents in a neoclassical model, albeit with the possibility that some assumptions are relaxed. Coase pointed to uncertainty, as developed by Frank Knight, as the most prominent market failure. Coase's most important disciple was Oliver Williamson who sought to explain economic organization using the transaction as his unit of analysis. Williamson built on Coase by exploring the relationship between the characteristics of assets and economic transactions:

> 'Although Coase was intrigued with the possibility that the characteristics of assets played a crucial role in the choice of firm or market and in the design of long term contracts, he decided against making this his central feature'.
>
> (Williamson and Winter 1991, p. 6).

Williamson's analysis was based on three building blocks (each a form of market failure):

A. Humans are opportunistic,

B. Humans are subject to bounded rationality,

C. Certain assets gain their value from combination with other assets. On their own they are worth less. Williamson termed this 'asset specificity'.

All three give rise to transaction costs, and provide for the possibility that hierarchies are a superior organisational form to the price mechanism. Firms are the archetypal hierarchy and, as a coalition of economic agents bound together by a nexus of contracts, they provide the means to minimise transaction costs. This becomes the *raison d'être* of the firm, and, for Williamson, most if not all phenomena can be explained with reference to the costs involved in managing the use of assets. For example, the financing structure of a company will be a function of the assets jointly owned by the firm's owners:

> 'If a firm's assets are plastic and costly to monitor, moral hazard costs arise with debt... Once indebted the equity holders do not bear the full downside losses on projects. Their incentive is to

> increase risk taking, because the bondholders will bear part of the risks of the downside losses, but the equity holders get all the gains'.
>
> (Alchian and Woodward 1987, p. 124)

This provides an example of some of the difficulties posed by market failure explanations of the firm. It is undoubtedly true that phenomena such as asset specificity, plasticity and moral hazard must be considered if contracts are to be of any use. Much is to be gained from doing so. However, as will be discussed in Chapter 3 there are other factors that might influence a firm's debt to equity ratio. Moreover, the ability of a firm to finance an investment on the back of an existing revenue flow from a *different* bundle of assets may also have an influence. The problem for Williamson is that these other factors also need to be explained within the confines of the model, which can prove problematic if they themselves are developed from assumptions excluded from the model.

Market superiority firms operate in a 'specialised exchange economy', in which the act of exchange according to price signals is emphasised. Production is reduced to the outcome of the exchange of assets and forms of knowledge subject to market failure type constraints. Production of goods and services for sale is relevant in as much as exchange transactions embodied in the production process have costs. Size is also determined from within the model. Like Marshall Coase found a way - diminishing returns to management - to play down the impact of internal economies in economic affairs. Ultimately, the firm's size depends on the physical assets held by the firm and the associated transactions and their costs. Its survival is predicated on the ability of its management to find efficient solutions to the problems of governance of these same transaction costs. This provides a role for management and human agency. Failure to maintain revenues above costs (which may or may not prove to be a function of managerial incompetence) will reveal an alternative form of organisation to be superior.

2.3.2. Alchian, Demsetz and the Importance of Teamwork

Like Williamson, Harold Demsetz agreed with Coase that the relaxation of central neo-classical assumptions is an important contribution to the development of a theory of the firm, specifically assumptions of perfect knowledge, competent management and functioning markets. However, he took issue with Coase's opposition between market and firm, arguing that Coase's non-firm is not neo-classical economics' non-firm. Coase had implied that firms would only exist in the presence of positive transaction costs. If they were zero then there would only be single person firms responding to price signals to allocate resources for production. Specialisation would reign supreme, and there would be no need for management coordination. According to Demsetz, in the neo-classical system firms and markets *do* exist along side zero transaction costs:

> 'What parades as perfect competition is a model that has much to say about the price system, but little to say about competition or the organisation of firms... what is modelled is not competition but extreme decentralisation.'
>
> (Williamson and Winter 1991, p. 160)

Instead firms and markets complement each other: markets are a space for the exchange of goods produced by firms. If the costs of operating within the price system were to rise the tendency would be toward self-sufficiency, rather than the establishment of firms: production for oneself, rather than for exchange. Demsetz uses this argument to extend the role of management in the presence of an extra class of imperfect information:

> "The firm' in the theory of price is simply a rhetorical devise adopted to facilitate discussion of the price system... The real tasks of management, to devise or discover markets, products and production techniques, and actively to manage the actions of employees, have no place in the perfect decentralisation model because it assumes that all products, markets, production techniques, and prices are fully known at zero cost'.
>
> (Williamson and Winter 1991, p. 161)

Moreover, according to Demsetz, managers' maximising decisions are not costless, as assumed by Coase and Williamson and the resources required to make such decisions cannot be treated as 'not scarce'.

Demsetz, along with Armen Alchian (1972) argued instead that the firm is actually the market by another name. To downplay the distinction they suggested firms should actually be referred to as 'economic organisations'. In certain conditions resource owners are able to increase productivity 'through cooperative specialisation': that is they come together to work as 'teams'. Team members relate to each other through contracts, which, bundled together become the firm. A specialist takes responsibility for 'monitoring' team members to guard against shirking. He receives the 'residual rewards' in return. To emphasise the absence of power in the system Alchian and Demsetz stated that any other member of the team able to realise the role more capably or at lower cost can usurp the incumbent residual claimant. Alternative structures - the limited liability company, for example - may appear different, however, all are essentially solutions to the shirking problem. Stephen Cheung took this approach to its logical extreme, arguing that the entire economy is in fact a nexus of contracts (Cheung 1970, 1983).

Jensen and Meckling (1976) picked up on Alchian and Demsetz, suggesting that their approach only applied to 'team based technology' . They instead introduced principle - agent relations as the most important concept with which to understand the firm. In a partial response Demsetz (1997) whilst agreeing that the emphasis on agency is useful argued that it cannot be the whole story. Agency considerations provide justification for the consideration of management, but so does imperfect knowledge of prices, technology and other phenomena. Managers are required to make decisions to guide the firm in uncertain waters ('what product should they produce, at what scale and scope, what about marketing and investment?') However, market failures can still exist and provide a challenge for management in a one person firm or a firm devoid of opportunists[6].

Alchian and Demsetz's approach to the market-superiority firm is a powerful one, but one so firmly rooted in the neo-classical model as to almost deny the existence of the firm. However, in extending the role of management beyond the control of costs and opportunistic behaviour to include more general strategic decisions taken in a world in

6. Demsetz offers an aircraft company as an example. Imagine a aircraft construction company with accumulated specialist knowledge and the means to expand. It would cost less to move into aircraft maintenance than transportation, as it would have to acquire unfamiliar knowledge at extra cost. The problem of which direction to take would still exist in the absence of principle - agent relations.

which prices are not necessarily known, they allow for a more realistic treatment of management. Whereas for Coase and, to a degree Williamson, the firm tended to be a means to overcome market failure, and so bring about a more pareto optimum outcome than would otherwise exist, Alchian and Demsetz suggest that even purely rational residual claimants might make the wrong strategic decisions, leading to sub-optimal outcomes.

2.3.3. Evolutionary Theories of the Firm[7]

The economic implications of non-optimising firms are most thoroughly explored in evolutionary theories of the firm, which are concerned with explaining how the market 'selects'[8] against some firms, even though no firms necessarily correspond to the pareto optimal ideal. An early proponent of the idea was, again, Armen Alchian (1950) who argued that at any one time firms in existence were those who were in some way consistent with the 'environment'[9]:

> 'Success (survival) accompanies relative superiority; and, second, it does not require proper motivation but may rather be the result

7. There is something of a debate as to Marshall's thinking on the role of evolution in economic affairs. See, for example, (Moss 1990), (Thomas 1991) and (Hart 2003).

8. Using the concept of evolution to explain economic phenomena has proved controversial. An early debate between Alchian and Penrose (1952) concerned the validity of substituting the 'market' for the natural environment on the grounds that humans, unlike animals and plants, can and do influence their environment in their favour.

9. Clément Levallois argues that Alchian's argument was primarily a statistical one. He simply used evolution as a metaphor to facilitate his argument:

'Alchian's handling of the marginal controversy was but one instance of his attempts to reconcile the existing analytical framework of economics with relevant aspects of economic reality, through the use of statistical arguments. Once this has been recognised, it is realised that Alchian's solution to the controversy was chiefly a statistical one, and secondarily an evolutionary one. The main support to our claim is that Alchian used not one but *two* overlapping analogies in his paper, one of which concerned statistical mechanics. The overlap, it is argued, explains why Alchian's economic natural selection lent itself so easily both to the advocates of maximisation and to evolutionary economists.'

(Levallois 2009)

> of fortuitous circumstances. Among all competitors, those whose particular conditions happen to be the most appropriate of those offered to the economic system for testing and adoption will be selected as survivors'.
>
> (Alchian 1950, p. 213)

Despite the influence of Alchian's theory it was, as Cyert and March argue, 'a defence of orthodoxy' (Cyert and March 1963, p. 13):

> '...since in the long run firms will survive only if they (by whatever process) make the deviations dictated by economic theory, the theory will predict the behaviour of viable firms. Since only the fittest survive, we need only a theory of fit.'
>
> (Cyert and March 1963, p. 15)

Cyert and March considered their behavioural approach an alternative to the neo-classical mainstream. They argued that firms might be selected against not only because of unfavourable winds, but because the interaction of people (even under contract) within a firm might bring about suboptimal outcomes. They developed a model of the firm that derives a firm's problem solving ability from its operational procedures and routines, which in turn are embedded in the firm's 'interorganisational division of labour and assignments of decision entitlements' (Dosi and Marengo 2007). In this way the price, output and resource allocation decisions (the primary concern of the study) made by a firm do not necessarily correspond to those of a rational profit maximising entrepreneur of pure neo-classical theory. Cyert and March, like later behavioural theorists, argue that once allowances are made for the real workings of economic organisations then it can be seen that firms as economic units do not behave as they are expected to in a neat neo-classical model. This in turn provides an explanation for the prevalence of disequilibrium in the real world.

Similarly Sydney Nelson and Richard Winters (Nelson and Winter 1982) argue that the orthodox firm sidesteps issues such as the problems of economic organization and the retention of knowledge and falsely assumes 'fully cooperative relations between diverse economic interests' (Williamson and Winter 1993)[10]. Instead they regard '... the understanding of the ongoing, inter-related processes of change in technology and organisations as the central intellectual problem to be confronted by a theory of the firm' (Williamson 1988, p. 187). The theoretical building block is firms' 'routines', which are the outcome of interaction between people in the firm and over time and became an integral part of a firm. Their emdededness means they are difficult to change, and as a result they might prove incompatible with the changing environment or inferior to competitors' and so affect a firm's position in the market. The inability of economic organisations to respond promptly and costlessly to external stimuli also suggests a degree of path dependence in an economy[11] and provides the basis for the argument that the establishment of free market institutions will not necessarily lead to the desired results.

Despite its claims the evolutionary theory of the firm can be understood as one more elaboration of the market superiority firm, although omitting less of reality than some of the alternatives discussed above. Indeed Nelson and Winters themselves claim the 'evolutionary scheme subsumes the orthodox one and delineates its proper uses' (Nelson and Winter 1982, p. 73). Whilst introducing routines as a new variable with which to understand the operation and survival of firms in an economy Nelson and Winters acknowledge that other factors may play a role in determining a firm's response to adversity. However, instead of pursuing these and the implications, both for their own theory and for neo-classical theory they ignore them:

> 'In reality, a great many factors are involved in determining the consequences of sustained adversity - for example, the degree of owner versus management control, merger opportunities, tax and bankruptcy law considerations, the liquidity or liquidity of a firm's assets, and the state of a firm's balance sheet when adversity began. It is beyond the scope of our present discussion to sort out these factors and relate them to the likely persistence

10. And (Williamson and Winter 1993, p. 187) for a more recent critique by Winter's of the 'textbook firm'.

11. See, for example, (Nelson 2008)

> or change in routines. One point perhaps is worth noting here: a firm without a viable routine is a firm without a viable truce in intraorganisational conflict. That consideration, by itself, affords abundant reason to doubt that firms behave in adversity 'as if' they were under the rational control of a single actor.'
>
> (Nelson and Winter 1982, p. 122)

Whereas Marshall's representative firm was a means to ensure the existence of equilibrium, the market superiority approaches described in this section are derived from the existence of market failure, and as an explanation of the sub-optimal distribution of resources in a market economy. Firm behaviour and economic dynamics become the outcome of a more nuanced understanding of human agency (bounded rationality, imperfect information and opportunism, for example), and sluggish responses to market signals are accounted for. Although the internal workings of the firm are examined, and, particularly in evolutionary models, the findings submitted as an explanation of the differences between firms, the economic functions of firms remain the same: to use and allocate resources efficiently. (Relative) success is a function of a firm's ability to maintain revenues above costs for an indeterminate period of time. Failure equates to the inability of managers to respond effectively to the challenges proposed by the approach in question. As Nelson and winters hint other factors might come into play, but these are 'beyond the scope of the discussion'. However, as will be argued below, and in the following chapter such factors cannot simply be ignored.

2.4. Capabilities Approach

One approach that refuses to limit itself to the confines of a model is the 'resource based view' (RBV). Originating in the work of Edith Penrose (Penrose 1959) the RBV spawned a large and diverse literature. Penrose's 'resources' have now been joined by 'capabilities'[12] and 'dynamic capabilities'[13]. The literature has also generated a large

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12. See, (Teece et al. 1997b), (Teece and Pisano 1994), (Grant 1991),

13. Unless otherwise stated the term 'resource based view' will refer to all variants of the approach for the remainder of this chapter.

strategic management literature[14]. The RBV provides an explanation for how and why firms grow, and has fuelled a wide literature on 'learning', which in turn provides a convincing explanation of how economies are able to develop over time. William Lazonick, for example, drew heavily on the approach to argue for the decline and fall of industries and economies[15] and to argue for the importance of the firm as a learning institution in capitalist development[16].

The resource based approach to the firm, defines firms as administrators of 'bundles of resources'. Assets bundled together provide greater scope than they would individually. However, less tangible assets such as technological know-how or organizational capabilities can now be considered. By focussing on capabilities, which are as much a 'social' as a physical asset, the approach pulls back from an analysis of firms in terms of *what* they produce, emphasising instead *how* they produce things. Firms can, therefore, gain competitive advantage in different product markets requiring similar capabilities, and are not constrained by the limits to one industry:

> '...with a different concept of the firm one can recognise that a 'firm', when appropriate resources are available, can produce anything for which a demand can be found or created, and it becomes a matter of taste or convenience whether one speaks of the 'market' or of the resources of the firm itself as the consideration limiting its expansion'.
>
> (Penrose 1959, p.13)

Penrose herself sought to develop a theory built on empirical observation, recognising that:

> 'In the literature of economics the firm of the real world has long lived in that uncomfortable no-man's-land between the high and

14. See, for example, (Barney 1986; Grant 1991; Barney 1995, 2001; Pitellis and Teece 2009).

15. See (Lazonick 1983; Lazonick and Elbaum 1986)

16. See (Lazonick 2002, 2004)

> dry plateaus of 'pure theory' and the tangled forests of 'empiric-realistic' research'.
>
> (Penrose 1995, p.9)

She famously stated that '...we shall not be involved in any quarrel with the theory of the 'firm' as part of the theory of price and production, so long as it cultivates its garden and we cultivate ours', citing Hicks' proposition that to dislodge the firm from its key position in economic theory would 'involve the wreckage' of 'the greater part of equilibrium theory'. She argued that for the sake of equilibrium theorists of the firm had required 'there be something to prevent the indefinite expansion of output'[17]. Penrose and later theorists undermined the edifices of 'equilibrium theory', placing the firm and the results of its actions at the centre of the story:

> 'The very nature of the economy is to some extent defined in terms of the kind of firms that compose it, their size, the way in which they are established and grow, their methods of doing business, and the relationships between them'.
>
> (Penrose 1959, p. 9)

The neo-classical approach to addressing the question of the firm is challenged in other ways:

> 'That a firm has boundaries follows from the nature of the categories we think in, however, not because we can clearly observe them in reality. The boundary of the firm is what distinguishes it from the market and therefore must 'exist' whether or not it is 'real' since the firm/ market dichotomy has been perhaps the major building block of an economist's analytical thinking'.
>
> (Penrose 1959, p. xvi)

17. She included Kalecki's 'increasing risk' as a type of uncertainty.

In challenging the opposition between market and firm RBV theorists developed explanations for cooperation between firms, rather than pure competition[18].

Penrose also took issue with the standard view of firm financing. The RBV assumes firms are committed to profit maximisation (albeit over the long term). However, the assumption of profit maximisation does not follow from a standard maximisation function, rather from the proposition that firms prefer to fund investments and so expansion with retained incomes, a cheaper source of funds, as 'managers [have] no desire to pay out to shareholders':

> 'If profits are a condition of successful growth, but profits are sought primarily for the sake of the firm, that is to reinvest in the firm rather than to reimburse owners for the use of their capital, or their 'risk bearing', then, from the point of view of investment policy, *growth and profits become equivalent as the criteria for the selection of investment programmes.* Firms will never invest in expansion for the sake of growth if the return on the investment is negative, for that would be self defeating. Firms will never invest outside of the firm except eventually to increase the funds available for the investment in the firm. To increase total long-run profits of the enterprise in the sense discussed here is therefore equivalent to increasing the long run rate of growth. Hence, it does not matter whether we speak of 'growth' or 'profits' as the goal of a firm's investment activities.'
>
> (Penrose 1959, p.30)

Penrose went a long way to developing an alternative approach to the theory of the firm. Her followers were able to develop explanations for firm boundaries, existence and

18. See (Best 1990), (Foss 1997).

internal organisation that did not take market failure as their starting point[19]. Unlike alternative approaches the resource based approach is, on the whole, not explicitly constrained by the parameters of the model it inhabits. As Penrose makes clear firms can and do exploit economies of scale and scope, large firms have the advantage over small firms and diversification serves a purpose. However, there is little suggestion that scale might have implications for the economy at large. In this sense it conforms to Marshall's own view that 'the history of the individual firm cannot be made into the history of an industry any more than the history of an individual can be made into the history of mankind' (Marshall 1997, p. 275). The RBV shares other similarities with Marshall and the approaches discussed above. Despite the possibilities for scale and heterogeneity all firms have the same 'economic function', which is:

> '...assumed simply to be that of acquiring and organizing human and other resources in order profitably to supply goods and services to the market.'
>
> (Penrose 1959, p.xi)

Growth and development is assumed to be a function of entrepreneurial success:

> 'Enterprise or Entrepreneurship as it is sometimes called, is a slippery concept, not easy to work into formal economic analysis, because it is so closely associated with the temperament or personal qualities of individuals. This extremely personal aspect of the growth of individual firms has undoubtedly been one of the obstacles in the way of the development of a general theory of the growth of firms''.
>
> (Penrose 1995, p. 2)

Firms fail when they cannot sustain profitability, and maintain revenues above costs. Firms of all sizes in all industries are in the same circumstances. As success is related to

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19. See (Barney 1996; Barney and Arikan 2001; Barney et al. 2001), (Teece and Pisano 1994; Teece 1996; Teece et al. 1997a, a; Loasby 1998; Pitelis 1998; Loasby 2000; Pitelis 2000; Lockett and Thompson 2001; Winter 2003)

entrepreneurial ability and access to funds is downplayed as a determinant of survival success and entrepreneurial ability have a linear relationship.

The potentially close relationship between the RBV and more mainstream approaches is demonstrated by a number of Penrose's followers, particularly when applying the approach in more macro studies[20]. There have also been a number of attempts to consummate the relationship. Montgomery (1995), for example, examines similarities and differences between the evolutionary and capabilities approaches. Pitelis and Teece (2009), is the most far reaching and demonstrates the persistence of the relationship between the neo-classical model and the theory of the firm. Christos Pitelis and David Teece argue that 'Market-failure - Firm Superiority-based theories of the firm' fail to 'explain why firms exist from the situation of 'no-firms at all' and fail to 'capture the role of the firm as a market creator and co-creator, and not just a protector/guardian of value already existing.' In the absence of markets for 'know-how' entrepreneurs in possession of a good idea might instead establish a firm to develop a product and extract maximum value from it. Pitelis and Teece attempt to integrate the essential elements of dominant theories of the firm into one:

> '[the objective, nature and essence of the firm] is to reduce the diagnosis, configuration and leveraging of knowledge assets and organisational capabilities to allow the principals of these organisations to effectuate the capturing of value (profit) from both the creative and routine operations of the business enterprise. While the superiority of organization (the firm) in this context can be partly explicated in terms of its transaction-cost reducing properties, the advantages of organization (over the market) go well beyond savings in transaction costs. They include combining co-specialized assets and capturing value from intangible assets where business models that involve pure market transactions (e.g. licensing) simply won't work because of the absence of properly functioning markets... 'the need to

20. See (Montgomery 1995) for a brief discussion. Also see (Barney 1986) and (Best 1990).

> orchestrate co-specialised and complementary assets could be seen as a raison d'être and the genesis of the firm, not only because of market failure, but also because the very creation of a credible player (firm) with a chance to realise its objectives by shaping, extending and especially creating markets, presupposes the co-assembly of co-specialised and complementary assets, capabilities and skills.'
>
> (Pitelis and Teece 2009, p.23)

In a similar fashion to the approaches outlined in Section 2.3 Pitelis and Teece look to subsume the dominant aspects of established theories into their own. They accept the market failure based arguments, but claim they do not go far enough. Missing markets are not simply a market failure. They are the 'raison d'être' of the firm and the source of value for firms. Nevertheless, the RBV continues to implicitly assume that differences between firms lie in their ability to take advantage of or create market opportunities; and that firms can otherwise be regarded as homogenous, at least when they are considered as abstract economic entities.

2.5. Conclusions

This chapter has outlined two prominent approaches to the firm that have emerged since Marshall developed the concept of the 'representative firm'. 'Market-superiority' approaches are explicitly neo-classical in nature, and although a number of concessions are made to reality, the overall effect is to flesh out the representative firm. Like Marshall, theorists shy away from structural phenomena that, although observable, if included in a general theory of the firm would undermine the logical structure of an economic model with equilibrium as its foundational principle. They do not, for example, challenge assumptions of constant returns to scale and the neutrality of finance. Instead the approaches imply that if a new technology, management technique or managerial talent could overcome or alleviate the market failures that form the basis of the approach in question then the economy would tend closer to its pareto optimal equilibrium. This has very specific policy implications, which will be explored in later chapters. The second set of approaches is based on the 'resource based view' originating in the 1950s and the work of Edith Penrose. Penrose explicitly rejected some of the foundational assumptions of the neo-classical model, and, in emphasising the act of production rather than exchange and introducing the concept of 'resources', gave life to a large and vigorous programme of study. However, it is the purpose of this thesis to argue that the theory of the firm should consider a number of alternative factors if the firm and its role in economic affairs are to be properly understood. Whilst the RBV goes some way in this regard, notably in incorporating economies of scale and scope, recent attempts at a synthesis of approaches suggest it too is being used to shed light on the representative firm.

It is the contention of this thesis that the predominant theories of the firm can only make a limited contribution to theories of financial development, as they are essentially Marshallian in nature, or rooted in theories of market failure. The implication is that policies that promote financial deepening - the increased provision of financial instruments and the alleviation of market failure in the finance sector - will affect the firm sector only in as much as all firms will find it easier to perform, and those who had somehow been protected by such market failure would face more accurate price signals. This, it will be argued, is in contrast to post-Keynesian theories of the firm that suggest that there are fundamental differences between firms in terms of their ability to access finance and manage liquidity, and that these differences will affect a firm's chances of survival and ability to make desired investments. Whilst this approach does not preclude the approaches discussed in this chapter it suggests that some firms will be more able than others to take advantage of opportunities as well as withstand shocks to their primary activities. As such the composition of the firm sector will go some way to determine the impact of financial reform.

Chapter 3: The Balance Sheet Firm

3.1. Introduction

This chapter will develop an approach to the financial behaviour of firms that will then be used in subsequent chapters to analyse the dynamics of the relationship between individual firms and the enterprise sector as a whole during periods of financial development. The approach developed makes use of Hyman Minsky's 'balance sheet' approach, which is used to organise insights from the work of Michal Kalecki, Josef Steindl and other economists working in the post-Keynesian tradition. Post-Keynesian approaches tend to emphasise mark-up pricing, the prevalence of oligopoly in capitalist economies, and fundamental uncertainty as a determinant of firm strategies with regard to the future. With reference to the work of Kalecki, Steindl and Minsky it is argued that firms differ in terms of sources of investment finance and the means by which firms manage liquidity and engage in asset markets over the course of the business cycle. Michal Kalecki and Josef Steindl in both their theoretical and empirical analysis point to substantial differences between 'small' firms and 'large' firms, and also between firms that have secured a monopolistic or oligopolistic position and more 'marginal' firms that have less power to set prices. Although Steindl and Kalecki are chiefly concerned with firms in mature capitalist economies this chapter argues that their insights can also be applied to firms in less developed economies in an effort to determine how firms might behave in the absence of certain financial institutions and as the finance sector develops.

This chapter will first briefly discuss post-Keynesian approaches to the firm, before introducing the work of Kalecki and Steindl. As both argue the firm's balance sheet evolves over the course of the business cycle, both in response to changing asset and other prices and also to the firm's operations in asset markets, the chapter will then introduce Minsky's 'balance sheet firm' as a lens through which to organise Steindl's and Kalecki's insights. The chapter concludes by arguing that the departures from the Marshallian firm - in particular the rejection of there being a democracy of entrepreneurship, and the importance of the critical relationship between the firm and the finance sector - can prove a useful analytical starting point for our understanding of the development and behaviour of the enterprise sector in a developing economy at various stages of financial development.

3.2. Post-Keynesian Firm

This section will briefly discuss the 'post-Keynesian' approach to the firm. It will provide the basis of a more detailed discussion of the balance sheet firm, an approach that will be derived from the work of Minsky, Steindl and Kalecki. The difference between the two will lie in the emphasis the latter gives to the ability of the firm to manage its liquidity to ensure survival.

Post-Keynesian approaches to the firm tend to emphasise fundamental uncertainty[21], the prevalence of oligopolistic competition in most capitalist economies, and the tendency for prices to reflect a mark-up over the costs firms face. Hall and Hitch, in a seminal 1939 paper, reporting the results of interviews with the managers of thirty eight firms (Hitch 1939) demonstrated that firms did not operate according to neo-classical principles (either consciously or unconsciously). Instead, they concluded, that the vast majority of business men, 'when quoting prices, did not think explicitly in terms of marginal revenues and costs, and that a general method of pricing was to add a margin as for net profit to average short term costs' (Andrews 1951). One of their more significant contributions was that cost plus pricing was not simply the preserve of large, monopolistic firms but the majority of firms. PWS Andrews conducted a number of similar empirical studies of business across the United Kingdom. He too found that business men made no explicit reference to marginalist economics. Although he accepted this did not necessarily imply the rejection of the doctrine, he found that as his studies progressed 'this way of thinking became progressively less tolerable' (Andrews, 1951).

Whilst post-Keynesian firms are assumed to have some power over the prices they set, their long term survival is thought to depend on its ability to control its environment. 'For any organisation, as for any organism, the goal or the objective that has any a natural assumption of preeminence is the organisation's survival' (Galbraith 1972). In an uncertain world the post-Keynesian firm seeks power 'over its suppliers of materials,

21. See, for example, Lavoie (1992), Davidson (1994, 1996) and Dunn (2008), particularly Chapter 10.

over its customers, over the government, over the kind of technology to be put in use' (Lavoie 1992). Power stems from size, and size from the rate of growth. The objective, therefore, is to maximise the rate of growth, which, ironically, given the criticism of neo-classical approaches, requires maximising profits. However, this does not necessarily correspond to the neo-classical notion of maximising short run profits (Kregel 1990).

One determinant of a firm's ability to survive unwelcome and unforeseen shocks is the degree to which it is financially dependent on other economic actors. This need not be a concern to firms operating in a world of certainty. 'In such a world, for instance, firms always have access to all of the financial capital that they require provided their investment project is expected to be profitable. The source of financing is immaterial' (Lavoie 1992, p. 99-100). For the entrepreneur envisaged in much post-Keynesian analysis, on the other hand, external finance is complementary to retained earnings, not a substitute for it. 'Organisations can safeguard their financial independence either by generating themselves the funds which are necessary for their expansion projects, or by staying within the borrowing norms that are set by the system' (Lavoie 1992, p. 103). In this the post-Keynesian firm resembles the Penrosian firm described in Chapter 1, and similarly Sweezy and Baran's corporation which also aims at and 'normally achieves' financial independence through the internal generation of funds (Sweezy and Baran 1967).

Nevertheless, whilst power and financial independence are objectives for most if not all capitalist firms neither is always attainable. This gives rise to the distinction between firms that have achieved some pre-eminence and smaller, less powerful firms. A number of theorists argue that economics should incorporate such fundamental differences between firms, and model the impact of larger, more powerful firms differently. Albert Eichner, for example, posited that as modern capitalist economies are dominated by large corporations or 'megacorps', so economic models should be built with the megacorp as a fundamental unit (Kregel 1990, Shapiro 1990, Eichner 2008). Unlike the neo-classical firm the megacorp is a large, diversified corporation run by salaried professional managers, with a skilled workforce at their command. It's objective is long term expansion. As expansion and obtaining market share depended on investment, megacorps set the mark up over costs such that it provides the firm with the funds required for planned investment. One implication of the megacorp's pursuit of profits is the important role of corporate saving in the economy, which is at least as significant as household saving. In this vein Eichner sought to marry his megacorp with Kaleckian macro economic models in which investment drove savings (Deprez 1991). For Eichner megacorps set prices to generate profits to finance investments. (Kregel 1990). Assuming that oligopolistic sectors dominate the economy, and smaller firms are less able to impose a mark-up over costs due to a lack of market power, then if households do not save, savings is an outcome of the population of megacorps' decision to invest.

In this thesis the distinction between large and small firms and their economic contribution is crucial, as is the notion, pursued in later chapters, that the level of investment of large firms has a bearing on the level of profits and so savings in an economy. However, this thesis will not specifically adopt Eichner's megacorp as a means to explore financial development in less developed countries as its distinguishing feature is the sophistication of its management and workforce. Instead, this thesis will build on the work of Michal Kalecki and Josef Steindl, who also emphasise firm size as a determinant of economic behaviour.

3.3. Using Kalecki and Steindl

Like Eichner, Sweezy and Baran and Galbraith, Michal Kalecki and Josef Steindl put large firms centre stage. Kalecki dismisses 'diseconomies of large scale' as a limit to the size of the firm as it is 'rather unrealistic. It has no technological basis because, although every plant has an optimum size, it is still possible to have two, three, or more plants.' (Kalecki 1971a, p. 105). He accepts that the size of the market can limit the size of the firm, 'but it leaves unexplained the existence of large and small firms in the same industry'.

Kalecki distinguishes between firms in two main ways. First, in terms of the type of industry they inhabit, and second, in terms of access to finance. Whether a firm inhabits a 'competitive' or 'oligopolistic industry' determines the sort of pricing policy open to it:

mark-up pricing or demand determined pricing. The policy adopted is a function of the good or service produced, its price elasticity of demand and of market institutions. The ability to mark up prices enables a firm to generate and sustain retained earnings. Again, Kalecki's view of pricing finds much empirical support from other post-Keynesian studies[22]. This in turn determines a firm's access to external finance as well as the size of investment it can undertake. Here, building on the work of Marek Breit, Kalecki introduced the concept of 'increasing risk', in which the greater the ratio between debt and equity the greater the risk of a firm's insolvency, and the more expensive is external credit (Toporowski 2005b). Large firms can both access more credit and make larger and less risky investments:

> 'A firm with large a entrepreneurial capital could obtain funds for a large investment whereas a firm with small entrepreneurial capital could not. Differences in the position of firms arising out of differences in their entrepreneurial capital are further enhanced by the fact that firms below a certain size have no access whatever to the capital market'.
>
> (Kalecki 1971, p. 106)

Expansion is therefore dependent on 'the accumulation of capital out of current profits'. Firms can then make new investments without 'encountering the obstacles of the limited capital market or 'increasing risk'' (ibid. p. 107). Savings from current profits can be directly invested in the business and make possible larger loans. The amount of a firm's entrepreneurial capital will determine the 'amount of rentier capital' the firm can access in the capital market:

> 'The limitation of the size of the firm by the availability of entrepreneurial capital goes to the very heart of the capitalist system. Many economists assume, at least in their abstract theories, a state of business democracy where anybody endowed with entrepreneurial capital can obtain capital for starting a business venture. This picture of the activities of the 'pure' entrepreneur is, to put it mildly, unrealistic.

22. See Lavoie (1992) for a discussion of the difference between 'mark-up' pricing and 'full-cost' or 'target-return' pricing.

> The most important prerequisite for becoming an entrepreneur is the *ownership* of capital.'
>
> (Kalecki 1971, p. 109)

Josef Steindl develops Kalecki's ideas in *Small and big business: Economic problems of the size of firms* (Steindl 1945). In a critique of Marshall's representative firm Steindl argues that firms need not be restricted by the size of a single industry and that large firms have an inherent advantage over smaller firms. Steindl takes issue with Marshall's assertion that because 'the rise from unpropertied worker to small entrepreneur and from then to big entrepreneur is possible' and 'ability always finds capital [and] inability loses it' that there will be a 'broad movement from below upwards' (Steindl 1945, p. 9).

Steindl tests Marshall's propositions in a statistical analysis of the US economy. He finds little to support Marshall: the 'rate of growth of corporate enterprises will have to be several thousand fold to reach the size of large firms' (Steindl, 1945, p. 36). This takes time and the 'high death rate' makes it unlikely. He also finds in favour of the impact of the principle of 'increasing risk' on the growth of firms. Inadequate net worth among small firms, a costly long term credit market and so reliance on short term credit, coupled with the finding that large firms have less difficulty accessing all forms of credit are sufficient for Steindl to proclaim there is no evidence for a 'broad movement upward'. He had come to a similar conclusion in a statistical analysis of the Austrian economy in the 1930s where he found that small firms struggled to grow beyond a certain size (Steindl 1965).

In this respect Kalecki and Steindl differ from some other post-Keynesians, who essentially see both large and small firms in the same light, although the latter may yet lack the 'control over future events, its financial requirements, the quality of its labour force, the prices of the industry and the possibility of takeovers (Lavoie 1992). Steindl also emphasises the importance of sufficient entrepreneurial capital and the ability to manage shocks to both the ability to survive and to reach large size (Steindl 1945).

Steindl argued that large firms come into existence either as newly formed joint-stock companies or through merger. The former 'presupposes' wealthy entrepreneurs and the latter, whilst an observable fact, includes takeovers, often themselves an expression of oligopolistic power. PWS Andrews made a similar observation, arguing that most new entrants to specific industries were from 'other lines of industry', rather than 'brand new businesses undertaken with all the uncertainties involved' (Andrews 1951, p.141). The high turnover of small firms and the large capital required to establish large firms led to Steindl to the conclusion that there is an 'elastic supply of small entrepreneurs' and a small and 'inelastic supply of large entrepreneurs'. Contradicting Marshall and in the spirit of Kalecki large entrepreneurs must be backed by capital. Moreover:

> 'If certain economies are available for a certain size of plant then only those firms that are big enough to afford the capital investment can make use of these economies; any smaller sized firms - size of a firm is measured in terms of capital here - will not be able to do so. On the other hand, if there are economies open to small plants - and a technical development may sometimes favour small scale equipment - then *any* bigger firm may make use of them just as well as a small firm, because there is nothing to prevent it from investing in a number of smaller plants. From this asymmetry it follows that small firms can never (in the long run) earn higher profit rates than big firms - because all technical advantages which are open to them are open also to big firms; whereas big firms *may* earn higher rates of profits than small firms because some advantages open to them are *not* open to small firms.'
>
> (Steindl 1945, p. 10)

Steindl does, however, suggest ways in which larger firms can lose their advantage. Large firms might suffer 'from the existence of imperfect competition (Steindl 1945, p. 11), particularly if the firm has to extend its market in one and the same industry. The way out is to extend into 'new lines', however this carries initial costs. A large firm might seek a lower rate of profit because it chooses to do so by the 'exchange of greater safety against a higher profit rate' by reducing 'the proportion of borrowed capital':

> 'The greater safety for bigger firms will, however, mean that the frequency and extent of their losses will be reduced, and that *on the average* they will be more successful than the smaller ones.'
>
> (Steindl 1945, p. 11)

If, on the other hand, there are differential lines open to different 'size classes' of entrepreneurs and large entrepreneurs 'are restricted in number' then 'a hierarchy of profit rates will be established, with a *smooth* increase of profit rates as size of the enterprise, measured in capital, increases' (Steindl 1945, p. 12). Lines with the 'greatest scale economies available' will offer entrepreneurs capable of exploiting them a 'more than 'normal' profit'.

Confined only to the small scale lines allowed them small entrepreneurs operate in a very different world. Given the restrictions on access to finance, the importance of maintaining a relatively liquid position and the elastic supply of entrepreneurs threatening entry forcing profits down Steindl is led to the following conclusion:

> '...the small entrepreneur by the very nature of his position conforms to a gambler; that is he is taking rather high risks for a low expectation of profit.… He is, however, willing to bear this risk at a very low remuneration. This is due to the fact that small entrepreneurs are desperately trying to maintain themselves in their social status, rather than become employees (to become rentiers is no practical alternative for them, because their capital is too small for this purpose).'
>
> (Steindl 1945, p. 31)

Steindl even goes so far as to ask 'what factors make for the continued existence of small firms?'. He cites four reasons. First, the gradual emergence of large entrepreneurs ('big scale entrepreneurial capital does not spring from the ground'). Second, and in an interesting twist on the creation myth of the neo-classical firm, is the presence of imperfect competition and imperfection in the labour markets. These can include 'rational factors' such as transport costs 'which can hardly be eliminated', and the 'irrational factors':

> '...there may be an individuality of product to which consumers really attach a significance... the differentiation of the product and attachment of customers to particular firms may simply be due to irrational factors; that is force of habit, ignorance of relevant facts, or laziness. The irrational facts are probably the most important; they account for a

> considerable cost to society without offering any advantage (gardening tools can be standardised without harm to individualists).
>
> (Steindl 1945, p. 59)

Third is the 'gambling attitude of small entrepreneurs', and fourth is the state of competition in the industry, which will be discussed below.

Presciently Steindl also discusses the 'vertical disintegration of certain processes, parts of which can be performed on a small scale'. Again Steindl takes issue with Marshall who claimed the process would provide further opportunities to small firms. Instead small firms, 'being numerous and small partners in a bargain with a few big firms, are economically quite weak and their independence is largely fictitious'. Steindl concludes that at worst small firms are a 'waste' of energy and resources. In another nod to Marshall's discussion of business groups and the modern literature on industrial agglomeration small firms should seek to eliminate the disadvantages of small scale by 'some kind of cooperation'.

Steindl (1975) discussed the dynamics of competition in a capitalist system. He argued that the rate of internal accumulation, available productive capacity, the utilisation of that capacity and the rate of growth of the industry relative to the rate of growth of internal accumulation are the crucial variables that explain competitive firm behaviour. He identified four 'phases' of competition:

A. If an industry is expanding rapidly marginal firms make little or no profit, small firms can enter relatively easily and 'progressive' firms can expand without taking market share from marginal firms.

B. If the expansion of the intra-marginal firm (or the progressive firm) is to exceed the rate of growth of industrial demand then the intra-marginal firm must make 'extra sales effort' to gain market share. Rising costs will reduce profits, but intra-marginal firms will 'maintain a differential advantage'. This 'moderate competitive pressure' will lead to the relative concentration of the industry as the marginal firms are squeezed.

C. If the accumulation of large firms surpasses the rate of expansion of the industry by enough to require diminished absolute size for marginal firms then large firms' sales efforts will be so intense smaller firms will lose sales. In response firms are forced to cut prices or increase costs by engaging in quality competition or intensive advertising. The highest cost firms are ultimately eliminated, leading to a state of 'absolute concentration'.

D. The onset of oligopoly. Competitive pressures and internal accumulation interact to regulate the level of excess capacity in the industry.

(Steindl, 1975, p. 87)

Although, as Steindl himself, admitted 'maturity' did not lead inexorably to 'stagnation', his account of competition reinforces the distinction between large and small firms, as well as suggesting firms capable of product or process innovations have both a competitive edge and a greater chance of survival. In the event of falling demand firms are forced to find ways to expand sales to ensure their capacity is utilised, so as to keep average costs down, and to ensure they have sufficient cash flow to cover capital costs. This reveals the level of demand and costs to be the main drivers of competitive behaviour. It also suggests that 'competition depends on sales effort, rather than the number of firms in the market':

> 'The key question is not what firms do, or what they are forced to do, competing with each other in a state of relatively constant overall market demand, but what firms do in response to changes in their demand, or sales of their respective output'.
>
> (Toporowski 2005, p. 94)

For Steindl large scale economies grant firms an advantage:

> 'They are basic, because without them firms would hardly grow to the size at which they are able to exercise monopoly power, by becoming '*price leaders',* combining with others in the formation of a cartel, or by amalgamation'.
>
> (Steindl 1945, p. 21)

Size, or more importantly, access to (preferably internal) finance enables firms to invest in advertising, product differentiation and innovation; all of which should enable it to take more of a share of a diminishing market. This suggests that firms continue to compete in oligopolistic markets. It also suggests that technical change is an important factor. Steindl identified 'progressive firms' (which need not be the largest firms) able to lower costs, increase profit margins and so increase the rate of internal accumulation. Technological investments are also a way for firms to diversify into other markets. However, diversification is a sometimes confused strand running through Steindl's work. One of Steindl's critiques of Marshall is the identification of firms with single industries. Firms can instead seek out 'new lines' to sidestep the restrictions of falling demand for their products. Steindl argues that this might be difficult because 'entering a new industry will involve the acquisition of an entirely new market and goodwill, of new experience and new organization. All this is more difficult than expanding an existing business within an industry (Steindl 1975, p. 68). In Steindl (1975) Steindl begins with by assuming that firms operate in single industries. He then relaxes the assumption:

> 'The conclusion is that the actual or potential flow of newly formed funds between industries will indeed do something to limit the inequality of profit rates between industries; but it will fulfil this function only slightly.'
>
> (Steindl 1975, p. 68)

In the introduction to the second edition of the book (Steindl 1975) Steindl corrects himself, arguing that one reason the post war economy did not stagnate was firms' ability to diversify their activities:

> 'There are still other elements in the postwar situation that are new. The big corporations generally have spread their activities to several lines each. Impediments against the flow of funds between industries would therefore play no role today. This again favours investment...'
>
> (Steindl 1975, p. xii)

and a few pages later:

> 'Oligopolistic firms, in recent years, have had more and more recourse to other forms of competition:… new products enable firms to transcend the given market and find the open field for expansion which they are

> seeking... Direct investments abroad may again offer an escape from the narrow oligopolistic situation.'
>
> (Steindl 1975, p. xiv)

This suggests that firms can further mitigate against increased pressure on sales in a given industry by developing the capacity to expand into 'new lines'.

The work of Kalecki and Steindl leads Toporowski (1993) to argue that different 'categories' of firms play differing roles in the economy. Small and medium sized enterprises and households tend to account for the majority of employment. 'However, the dynamics of an economy, i.e., economic growth and inflation, are determined broadly by the scale of investment undertaken by corporations, which account for the vast majority of investment in an economy' (Toporowski 2009). Toporowski further distinguishes between capital intensive firms with high price elasticity of demand (Category I) and less capital intensive firms facing inelastic prices (Category II) (Toporowski 2005a). The former, mostly operating in primary and large scale industries tend to expand output rather than increase prices in response to rising demand; whilst the latter raise prices. This is chiefly a consequence of available under-utilised capacity and the need for Category I firms to lower average costs with increased production.

Steindl, Kalecki, Toporowski, like Eichner, emphasise the differences between large firms and small firms and their impacts on the wider economy. In summary large firms with access to greater 'entrepreneurial capital' have improved access to capital markets and bank loans. They are therefore better able to take advantage of large scale investment opportunities and benefit from economies of scale. The possession of entrepreneurial capital and the ability to diversify into new lines also provides large firms with a greater chance of survival in the face of shocks to their primary markets. As a lack of entrepreneurial capital is assumed to limit the rate of growth, access to funds and the chances of survival Steindl and Kalecki argue that large firms are more likely to be born from existing firms or large concentrations of entrepreneurial capital rather than be the outcome of long term growth.

The following section will introduce Hyman Minsky's balance sheet approach to the firm, a useful tool to examine firms' interaction with the finance sector, and their response to changes in demand.

3.4. Minsky's Balance Sheet Firm

Hyman Minsky's account of the importance of balance sheet management provides the framework to best understand the ways in which firms manage cash flow in response to changing circumstances. In his PhD thesis Minsky dismissed profit maximisation as the 'unique behavioural principle', and argued that 'the problem of the financing technique to be used by the firm [or] the problem of balance sheet structure' was of similar significance (Toporowski 2008). Later Minsky placed 'the problem of balance sheet structure' at the centre of his analysis.

Minsky's primary concern was to explain the source of economic instability. Balance sheets are 'both a resumé of past economic activity and a reflection of current decisions', and a 'statement of [an economic unit's] assets and liabilities, of its ownership interest in and claims upon other economic units and of other economic units's ownership interest in and claims upon it'. Financial assets originate as liabilities and so represent 'past behaviour', and debt contracts 'result in a division or partitioning of the risk and uncertainty inherent in any economic activity. The alternative financial techniques by which a unit can acquire control over real assets are significant determinants of how uncertainty is partitioned' (Minsky 1964, p. 185). Business firms have to decide how to finance investments. They (and households) evaluate possible (un)favourable outcomes and want to protect against them. So 'in making its decision the economic unit combines its evaluations of the situations, its own attitude toward uncertainty and the price at which it would acquire protection against the unfavourable and its share of favourable outcomes.' (Minsky 1964, p. 186) An economic unit's asset and liability structures reflect these choices.

Firms issue debt and liabilities (which households own) in order to acquire control over real and financial assets necessary to carry out activities. Debt is for the risk averse (as they will always receive payment) and equity is for the risk takers. 'Corporation finance and private portfolio management are the two anchors for the behaviour of the financial system'. Financial institutions - defined as 'business organisations whose assets are almost all 'intangible assets' - stand between the business firm and the households. They generate liabilities acceptable to the risk averse and purchase liabilities from unsteady firms:

> 'The study of finance is the behaviour of economic units when confronted with specified types of uncertainty, and financial institutions and usages are ways in which the uncertainty borne by a unit can be adjusted to the unit preferences'
>
> (Minsky 1964, p. 188)

Minsky defines assets as tangible or real (residential and non-residential structures, land, producers' durables, and inventories) and intangible or financial (debts and equities). Debts are a commitment to make payments at specified date, at the initiative of the holder of debt or contingent on some future eventuality.

In order to manage its commitments a firm must ensure that it has sufficient money to 'meet its obligations at the time they are due'. In his analysis of 'money flows' Minsky identified three 'transaction types', each associated with three 'accounts': the balance sheet account, the income account and the portfolio account.

Financial and physical assets are an economic unit's 'portfolio'. Economic units are the beneficiaries of commitments of other units on these assets. Financial and tangible assets can be exchanged for money and money for assets. Transactions that involve financial and tangible assets are called portfolio transactions. During a period of growth there are portfolio transactions in existing and new assets. 'Surplus or portfolio changing units' acquire financial liabilities from deficit units. As a result two things happen: the 'value of equity assets changes to reflect expectations that growth will continue', and 'deficit units have to finance an increasing portion of their activity by debt instruments acceptable to financial intermediaries'.

A firm's income account corresponds to receipts from the sale of goods and services, payments on wages and salaries, gross investments and tax payments. For most firms money flows primarily stem from current income producing activities (the sale of goods and services). Economic units receive money as a result of their 'participation of current income' (Minsky 1964, 250), and money flows out as purchases of goods and services.

Money inflows on the 'balance sheet account' are, for Minsky, 'not significant for business firms apart from trade credit'. Outgoings correspond to interest and principle paid on debts and dividends on equities. The ability to pay in turn depends on final demand for a firms products. Finally the 'portfolio account' corresponds to 'receipts from bank borrowings and the sale of securities to other units and government securities'.

Minsky used balance sheets to explain how an economic unit could find itself in 'a situation where it does not have sufficient money on hand to fulfil its currently due commitments and there is no good prospect that it will be able to fulfil its commitments in the near future' (Minsky 1964, p. 252). He argued the 'path to financial distress related to the profit and loss statement of an economic unit' (Minsky 1964, p. 254). A distressed firm's hope for survival depended on its ability to 'engage in portfolio transactions': issue liabilities or dispose of assets. 'Both have limits; either the acceptability of its liabilities decreases or it runs out of assets'. Minsky identified one exception: a firm 'investing in the future' may have expected future earning power sufficient ensure the continued acceptability of its liabilities.

3.5. Kalecki and Steindl as Minsky's Balance Sheet Firm

Minsky's distinction between a firm's income account, balance sheet account and portfolio account provides a useful lens with which to analyse firm differences and the influence of the finance sector on firm behaviour.

Minsky himself was concerned to explain how firms might become distressed in the event of a fall in demand (a reduction in money flows to the income account) and also how the changing values of a firm's assets and liabilities could both impact on its own chances of survival and on the stability of the economy at large[23]. Firms are forced to respond to changes in demand for their output by running down reserves, issuing liabilities and managing or restructuring their portfolio account.

Minsky (1964) spells out the impact of a boom on the balance sheets of households and business firms. A boom driven by increased business and household investment depends on the creation of new money 'or the substitution of debts (and possibly equities) for money (velocity changes)'. As a result businesses will have a higher proportion of debt to income, and so interest rates will rise. Business firms will be committing a higher proportion of their incomes to servicing their increasing liabilities. Increases in the prices of financial and real estate assets will provide firms with capital gains and the ability to support more debt. In the event of a downturn the value of equity and real estate can fall, 'wiping out the protection of the lender'. Portfolio transactions will also increase relative to income and balance sheet flows. 'So systematic changes to the financial structure take place during a sustained boom. Balance sheet money flows increase relative to income. The value of equity and real estate assets rise relative to current income imputed to them, money flows on portfolio account increase relative to money flows on balance sheet and income account, and transaction velocity increases relative to income velocity' (Minsky 1964).

Minsky distinguished between firms in terms of their vulnerability to falling asset prices and their ability to fulfil financial commitments in the event of reduced cash flows. Firms with a larger debt component in their balance sheets and so a smaller ratio of net worth to total debt will be more likely to face financial distress. This is analogous to Kalecki's concept of increasing risk. If the market value of assets decline, depending on whether they are forced or required to sell, units will have a realised or unrealised capital loss. A loss in net worth will impact on a firm's ability to borrow. A forced sale will lower the price of the asset. If a number of units are in the same position then there will be a exaggerated impact on the price of the class of assets sold. The ability to sell and the price received will also depend on the assets are 'special rather than general purpose'[24].

23. See Minsky (1992)

24. This has interesting echoes of Williamson's accept specificity.

The balance sheet approach provides an opportunity to elaborate the work of Kalecki and Steindl. Both argued financial assets are an alternative to fixed investments (whose attractiveness will wax and wane with the business cycle) as well as a form of indemnity in the event of a fall in demand for goods and services produced (Steindl 1945 and Kalecki 1971).

For Kalecki large size gives firms the opportunity to make large investments and so accumulate large amounts of entrepreneurial capital and to access, if required, larger loans on more favourable terms. However, firms will tend to limit the use of the capital market because 'of the increasing risk involved in expansion' (Kalecki 1971, p. 106). The more a firm borrows the greater the danger of insolvency in the event of failure. Large firms with more retained earnings than they care to invest in fixed assets, or who wish to hedge against failure might instead invest a proportion in securities meaning that in the event of failure they will still be able to draw some income (Kalecki 1971). As small firms suffer from inadequate internal reserves they must maintain a selection of liquid assets as security or expose themselves to the possibility of insolvency. Kalecki argued that firms that did attempt to access proportionately large amounts of external capital would struggle. Those, for example, floating a bond issue 'which was too large in terms of its entrepreneurial capital', would find it undersubscribed. Raising the interest rate paid would only cause investors to doubt the firm's solvency (Kalecki 1971, p. 106). Smaller firms attempting to undertake projects with high costs of production and distribution are 'driven to supplement their own capital by extensive short term borrowing at unfavourable terms'.

Steindl (1945) analyses the impact of holding financial assets on the rate of profit on equity. Steindl utilises the *gross* and *net gearing ratios*. The latter being the proportion of business capital to equity. The former being the proportion of total assets to equity. Steindl shows four things. First, that with high gearing ratios firms will make more spectacular losses in the event of failure. Second, both the gross and net gearing ratios decrease with size. Third, larger companies are more likely to invest in interest bearing securities, further offsetting any risk they bear. Fourth,

> 'The consequences of a high gearing ratio for small firms are reinforced by two further factors: the smaller firms often *rent* buildings etc. (which would normally be owned by big ones), which means nothing else but a borrowing of these capital items *in natura.* The rent provides a fixed charge, like interest, with similar effects on the risk. More important, the relatively greater indebtedness of the small firms takes for the most part the form of short-term debt. This makes the risk even greater (if no renewal of credit is obtained the firm will have to engage in forced selling).
>
> (Steindl 1945, p. 45)

Large firms will therefore receive part of their income in dividends, that will be only a part of a company's total profit. As a result 'very big companies have greater stability from a large income from dividends which is, however, lower than the profit rate in a successful company, especially in times of good business' (Steindl 1945, p. 47).

In Minsky's terminology large firms will expand their portfolio account, enabling firms to mitigate against losses in the event of a downturn. Firms can also either tap income from financial investments (interest or dividends), or they can restructure their portfolio accounts and balance sheet accounts to manage the effects of a fall in revenues in the income account. Although Minsky himself did not explicitly distinguish between firms by size the observations of Kalecki and Steindl indicate that large and small firms will differ in their ability to manage their portfolio and balance sheet accounts. Smaller firms are limited in their ability to manage cash flow; having to rely on the sales of their goods and services (Toporowski 2009). Essentially, their operations are confined to the real economy, with little recourse to the financial sector for loans, equity or alternative income generating investments. Large firms, however, can restructure their balance sheets in order to refinance investments, allowing firms to 'top up the liquidity of reserves' and 'readjust the structure of the financial liabilities that corresponds to [their] productive assets' (Toporowski 2000). By developing their portfolio account they can generate cash flow (from dividends) and manage liquidity (through the sale of assets). Financial assets can play the role of a hedge against a decline in the firm's position in the real economy. However, they can also be a straight (and more liquid) alternative to investments in fixed assets. This will be discussed further below.

As we have seen Steindl and Kalecki differentiate firms in more ways than size alone. Pricing policies, price elasticities, technological capabilities and capital intensities, will all to a greater or lesser degree affect a firms ability and need to accumulate internal reserves, access capital markets and manage a fall in demand through changes in output or price. In oligopolistic industries, for example, in contrast to Steindl's more secure progressive or intra-marginal firms, marginal firms will struggle to respond to falling market share with cost reducing innovations, sales effort or, by venturing into new lines. Such firms will likely have greater need to restructure their balance sheets and access external loans, but will be less able to do so. Large capital intensive firms are those most likely to face higher debt or equity servicing costs (balance sheet account outflows) in a recession, as they tend to make 'the largest calls on the capital market in a boom'. Toporowski's 'Category II' firms, on the other hand will have fewer commitments (Toporowski 2005a).

All of this suggests that a distinguishing feature of the large firm that emerges from the work of Kalecki, Steindl, Minsky and Toporowski is its greater autonomy as an economic unit in the face of exogenous dynamics. Such firms are able to respond by managing *more* than their real economy operations.

This then lead to the possibility that investments by large firms in financial assets has a bearing on the level of investment in the economy and the economic stability. Kalecki and Steindl argue firms are more likely to engage in financial market operations at certain points in the business cycle. Along with Minsky they argue that relative returns to investments in the real economy and the finance sector change as the business cycle progresses. Minsky argued that 'key to the business cycle is a widening gap between capital asset prices and investment output' (Minsky 1964). For Minsky, as 'financial constraints are relaxed' financial innovation takes hold. In a similar vein to Kalecki and Steindl firms develop an increased dependence on outside finance and debt leveraging for investment. As a result cash flow commitments due to debt grow at a faster pace than investment increases productive capacity. This eventually leads to a shift in incomes from entrepreneurs to rentiers, that in turn leads to a decrease in investment, and so a reduction in profits. Kalecki suggests that as the business cycle approaches its crest firms themselves (and so entrepreneurs) will begin to purchase higher yielding securities. In Minsky's terminology, firms will begin to grow their portfolio accounts, possibly at the expense of investments in fixed capital assets. They do this because of both changing relative prices, but also the greater availability of financial instruments, that, according to Minsky, inevitably occurs over the course of a boom.

The investments firms make will therefore have an effect on the structure of the economy. Financial assets need not simply be a means to hedge against any uncertainty attached inherent in real world transactions. Instead they can be an end in themselves. The levels of investment in physical assets can directly impact on the profits of other firms. In developed economies reduced investment in physical assets will impact on levels of employment and profits, with implications for the business cycle. In developing countries the impact can be more serious, as scale investments in physical assets are a driver of the industrialisation process. While Kalecki saw such reductions in fixed investments as a cyclical and so temporary phenomenon Steindl, Minsky and Toporowski laid greater emphasis on the transient nature of institutions. Steindl (1975) saw the investment decisions of firms leading to the decline and stagnation of the US economy. The driver was the behaviour of large firms themselves. Minsky, on the other hand, suggested that changes in the finance sector and the relationship between firms and the finance sector could limit the sorts of investments firms might safely make (Minsky 1991). Toporowski pointed to both developments in the finance system and the behaviour of firms; arguing that with financial development large firms could as profitably invest in financial assets as real assets (Toporowski 2010). Both Minsky and Toporowski raise the possibility that fixed asset investments might be a function of financial institutions and their evolution as well as the mix of firms operating in the economy.

This suggests that both economic analysis and policy should consider the economic functions of different firms. It is not enough, as orthodox economics does, to focus on developing 'market institutions', with little consideration (beyond competition and anti-trust law) to the mix of firms existing in the economy and the distribution of 'large entrepreneurs'. Firms provide significantly different functions, depending on size, industry and capability. Large scale investments are to come from large firms. Smaller firms are more likely to provide the majority of employment. However, the sorts of investments firms make and the impact on factors such as technology acquisition, investment, employment is as much a function of output demand, the development of the finance sector and relative asset prices as it is a managerial solution to a maximisation problem.

3.6. Summary and Conclusion

For post-Keynesians a world of fundamental uncertainty suggests that firms must prepare for the unexpected and the providers of finance must compensate for the possibility of default. The ability to access finance, achieve financial independence and increase the likelihood of survival is therefore associated with larger firms that both possess entrepreneurial capital, can exploit economies of scale and develop diversified portfolios and alternative sources of income. The investment behaviour of large firms is therefore more likely to determine overall levels of investment, savings and the stability of financial markets. The following chapter will argue that these insights, whilst developed from analysis of mature capitalist economies, can also increase our understanding of the relationship between the enterprise sector and the financial sector. In particular without dedicated services for small sized firms financial sector development will have only a limited impact on the ability for smaller firms to grow and survive. Second, in countries in which there are limited concentrations of entrepreneurial capital large firms are unlikely to emerge in any great number from the private sector, nor, in countries with low levels of development will equity markets be sufficient to bring into being large joint-stock companies. Third, firms can be broadly categorised as those that only operate an income account and those that also operate a portfolio account. In developing countries with under developed asset markets - bond, equity or real estate for example, - large firms will have difficulties building a portfolio of sufficiently liquid assets that also provide a return. The argument developed above is that such assets provide firms with the means to withstand shocks to cashflow from their primary activities, either in the form of diversified cashflow or saleable assets. This suggests that firms will refrain from large capital investments and instead, if they are able to generate savings, diversify their activities. Fourth, firms need not manage their portfolio account solely to manage their liquidity. Instead, they can in the event of asset market inflation, seek speculative returns through their current account. This has implications for economic stability as financial development takes place.

The next chapter will examine the literature of finance and development more closely. It will argue that more orthodox approaches typified by the financial liberalisation hypothesis are ill-equipped to speak to the issues raised by the discussion in this chapter. Instead, post-Keynesian critiques of the financial liberalisation hypothesis will be followed an attempt to marry the balance sheet firm to a simple Kaleckian model.

Chapter 4: Financial Development and the Balance Sheet Firm

4.1. Introduction

This chapter will locate the balance sheet firm in the wider financial development literature. Section 1 will discuss the Financial Liberalisation Hypothesis (FLH), associated with Ronald McKinnon and Edward Shaw. According to the FLH the liberalisation of the banking system and financial markets in developing countries will facilitate the better mobilisation and allocation of savings. As less developed countries (LDCs) are assumed to suffer a savings constraint liberalisation should improve a country's prospects for economic growth. Section 2 will discuss post-Keynesian approaches to financial development. Post-Keynesian thought inverts a number of the propositions underpinning the orthodox theory. Investment leads to savings, rather than the other way round and in theories of endogenous money bank loans become deposits, thus increasing the money supply. As economies develop banks go through a series of stages in which they progress from the role of simple intermediary - collecting and allocating savings - to extenders of credit that need not have an equivalent backing of prior savings. Although not an essential prerequisite for investment savings takes on a crucial role in 'funding' investments. Financial intermediaries - bond markets and stock markets in particular - are used to channel savings to firms looking to convert short term bank debt to long term debt in order to reduce their financial commitments, and so vulnerability to unforeseen shocks. The opportunity to fund investments should reduce levels of risk at both the micro and the macro level. As far as it goes this Keynesian refutal of the orthodox position provides a useful basis for the analysis of finance and development. However, as discussed in Chapter 3 Keynesian theory provides further insights into the behaviour of firms with regard to financing and liquidity management, which can provide further insight into the relationship between financial development and economic growth. These are discussed in Section 3. The principle of increasing risk (PIR) suggests that there will be a limit to the amount of finance extended to firms by banks, and the price at which firms can access credit will be a function of banks' perception of the riskiness of the loan. More concretely, the more 'entrepreneurial capital' available the cheaper and larger the available loan. This suggests that the structure of the firm sector should have a bearing on the levels of lending and depth and level of investment. The balance sheet firm also suggests that in the absence of formal funding opportunities shallow diversification strategies would be more favourable to firms with the means to grow. Post-Keynesian thinking suggests the development of financial markets provides more than one more intermediary between savers and investors. Issues of stock would, for firms, be a means to recapitalise following fixed capital investments, rather than a direct source of finance for investment. In the event of over-inflated markets firms might also be expected to become 'over capitalised', and, for a period of time, seek returns managing current assets on their balance sheet. All of this suggests a role for the state in the early stages of economic development. One strategy for LDCs lacking large concentrations of private capital and the financial institutions capable of funding firms is to create state owned enterprises (SOEs). SOEs could then make large investments with by state sanctioned loans. However, they would still face similar issues to private firms and would require the state to determine the degree to which it intervened to manage firm liquidity. In economies in which the state seeks to divest some part of the state owned enterprise sector and grant firms a degree of autonomy the sorts of behaviour anticipated by the balance sheet approach will have potential ramifications for the wider economy.

Section 4 summarises the discussion in a series of 'propositions' that will be explored in Chapters 4-6 in a study of Vietnam. Section 5 concludes.

4.2. Financial Liberalisation Hypothesis

In many macroeconomic models the role of financial institutions is neutral[25]. Banks and other financial institutions are omitted, and instead a direct link between savers and investors is assumed. The supply of savings by households is determined by their inter-temporal preferences, and is inversely related to the interest rate. The demand for investment is a function of the (diminishing) marginal product of capital (MPC). Equilibrium is at the rate of interest at which the supply of savings is equal to its demand, a function of household thrift and productivity. An excess demand for funds will tend to raise the interest rate above the MPC. Conversely, an excess of savings will confront a

25. See for example Woodford (2002).

falling interest rate. An exogenous shock, such as a technological improvement that raises the marginal product of capital, would bring about an increased demand for capital, and so savings. Assuming that consumers' preferences remain unchanged, an increase in the interest rate will lead to a concomitant decrease in consumption and increase in savings, so providing producers with required funds.

In a liberalised economy with well working financial institutions savings, regulated by the interest rate, will flow freely to investors. At full employment income will be allocated according to marginal returns to factors of production, a function of relative factor scarcities. There are, however, a number of approaches dating to at least Schumpeter (1911) that propose ways in which the financial sector can have real effects. New Keynesian models, for instance, focus on the impact of market failures on the ability of financial intermediaries to properly perform their economic function. The classic example is Stiglitz and Weiss (1981) who argue that the presence of market failures in the financial and banking system could make a policy of financial liberalisation less efficient than one of repression. The prospect of moral hazard or adverse selection might mean higher interest rates attract less efficient investors. Immature banking systems in LDCs might well be particularly prone to market failure, as they lack the expertise to monitor projects. In particular informational asymmetries between lenders on the one hand and borrowers on the other may impact on the real economy. If lenders cannot determine the riskiness of borrowers they will tend to pay a price for securities that represents the average quality of firms or risk of default - a price that is lower than the market price for reliable firms, and higher than for riskier firms. Alternatively firms with riskier projects will be more willing to pay higher rates, and so discourage lending at higher rates. More recent models concerned primarily with developed economies focus on sticky prices, including interest rates, but also assume a neutral, if not absent financial sector (Woodford 2003).

An alternative, but related proposition is that financial repression can lead to sub-optimal outcomes in already savings starved economies. The financial liberalisation hypothesis (FLH), posits that financial liberalisation leads to a more efficient allocation of scarce capital (Goldsmith 1969). The argument was articulated most fully by McKinnon (1973) and Shaw[26] (1973) in two complementary contributions. 'Less developed countries' suffered from financial repression, in which state intervention in banking and finance sectors restricted the opportunities for resource starved economic units to make use of financial services. Financial repression refers to interest rate ceilings, high reserve requirements and quantitive restrictions, all of which enable state favoured firms in 'urban enclaves' to benefit from privileged access to cheap credit, resulting in an inefficient allocation of savings, low levels of total savings and 'fragmented' economies, in which those with resources have no way of channelling funds to those with viable projects but no funding (McKinnon 1973). Small rural firms are confined to small scale, low technology production as they cannot afford to make the relatively large discrete investments in new technologies and infrastructure[27]. If they save they tend to save inventory or other physical assets. They would be better off, argued McKinnon, if they saved money balances. He therefore proposed the extension of 'financial institutions' to rural areas and the setting of (higher) market determined interest rates, which would serve the dual purpose of attracting savings and discouraging the sorts of inefficient investments that typify the urban enclave. Financial liberalisation further increases economic efficiency in a number of ways: households are presented with a wider selection of financial assets and instruments, financial intermediaries can pool savings and package loans in ways more suited to borrowers, and they can monitor the performance of projects, reducing risk for savers and encouraging specialisation.

A number of studies have sought to test the various facets of the FLH. These have examined the relationship between financial deepening and growth, the elasticity of the interest rate with respect to savings and growth, and the claim that firms treat financial and real assets as 'complementary'.

4.2.1. Financial deepening and Growth

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26. Ed Shaw was an advisor the the Korean government as they underwent financial reform in the 1970s (Woo 1991).

27. McKinnon's example was a green revolution; a liberal financial sector would enable farmers to save in order to purchase new seed varieties or technology.

Such studies tend to find a strong correlation between economic growth and financial development, measured using a proxy or proxies for financial deepening. In a cross country study of 35 countries Goldsmith (1969) found countries that experienced rapid growth tended also to have above average rates of financial development (measured as bank assets to GDP). King and Levine (1993b) analysed 80 countries between 1960 and 1989 and again found economic growth was positively correlated with financial development. They also found that levels of financial development were a predictor of subsequent rates of growth, physical capital accumulation and economic progress, concluding that 'finance seems importantly to lead economic growth'. Cooley and Smith (1991) found that financial markets promoted specialization and technological innovation. Benhabib and Spiegel (2000) pointed to the relationship between financial development and capital accumulation and productivity growth. Focussing exclusively on dominant manufacturing sectors Rajan and Zingales (1998) find that 'financial development has a substantial supportive influence on the rate of economic growth and this works, at least partly, by reducing the cost of external finance to financially dependent firms'. Whilst accepting the correlation between financial development and GDP growth a number of studies view financial development as an outcome of the development process, rather than a driver. Robinson (1952), for example, argued that at high rates of economic growth there is a greater demand for new and more sophisticated financial instruments.

Arestis and Demetririades (1996) questioned King and Levine's claim that finance led growth, arguing that King and Levine's findings were not as strong as they claimed. They and Demetririades and Hussein (1996) showed that the relationship between financial development and growth is more nuanced and depends on the sorts of financial institutions and policies in place in individual countries.

Manning (2003) re-examines studies that find a relationship between economic growth and financial development, and concludes that the findings are not as robust as claimed. He suggests further that growth can just as easily be correlated with political, legal and institutional factors, particularly in Asian countries where country studies point to the importance of non-financial factors in periods of rapid growth. Similarly, Arestis and

Demetriades (1999) argue that much of the FLH literature ignores or downplays the importance of institutions such as the legal system (for establishing and enforcing contracts and property rights), the state's role in inspiring 'confidence in money's capacity to retain value', banking supervision, central banks and stock markets. Whilst cross country studies can provide evidence at a general level variations can often be explained by reference to dynamics in individual countries.

4.2.2. The elasticity of the interest rate with respect to savings, investment and growth

The key claim of McKinnon and Shaw is that financial repression corresponds to a low (relative to equilibrium) real rate of interest (which could be negative) which discourages saving. Higher interest rates, an outcome of liberalisation would encourage units to save by placing money balances in financial institutions. There is substantial evidence money balances and physical assets are complementary[28], however other posited relationships are more problematic.

A number of studies have tested the elasticity of the interest rate with respect to either savings, investment or growth, and whether higher interest rates have a positive effect on saving. Modigliani (1986) found there was a relationship between the saving ratio and the interest rate. Fry (1988), in an influential study, also found a relationship. However, this was then questioned by Giovanni (1983) and Gupta (1987), who pointed to regional variations in his results. Fry himself later admitted that 'if an effect exists at all it is relatively small' (quoted in Arestis and Demetriades (1997)). The relationship between the interest rate and saving has also been questioned in a number of further studies. Gupta (1987) studied 22 Asian and Latin American countries, and found little to support the relationship, concluding that the most important determinant of savings is income. In a study of Asian countries Giovannini (1983) also found little evidence that higher interest rates called forth higher savings. The World Bank (1989) made similar findings, as did Nissanke in a study of Africa (1990), and De Mel and Tybout (1986) in Uruguay.

28. See Ajewole (1989), Thornton (1990), Khan & Hasan (1998) and more recently Odhiambo (2004) in Kenya.

Warman and Thirlwall (1994) studied the relationship in Mexico between 1960 and 1990. Whilst higher interest rates were correlated with increased financial saving, savings also grew in periods of negative interest rates. Significantly financial saving was most closely correlated with income, and increases in financial saving did not necessarily imply an increase in total saving. Moreover, an increase in the level of financial savings also might not necessarily lead to increased efficiency (Warman and Thirwell 1994). At lower levels of development alternative modes of saving such as curb markets, or non-money assets such as gold or other non-financial assets may be more efficient. Asking whether financial saving was more efficient bought no firm conclusion: 'financial saving may remain in the financial sector for speculation purposes and not lead to more productive investment' (ibid.).

A further criticism is that the FLH ignores the impact of short run capital flows and the spectre of speculation (Arestis 2006). The FLH, at least in its earlier incarnations, tended to assume a closed economy and did not consider the impact of a higher interest rate on foreign capital inflows, which in many countries has proved destabilising (Arestis 2006, Bhaduri 2004). Foreign capital inflows can also lead to stock market expansion, which 'erodes policy autonomy, and, in the case of a fixed exchange rate policy, it forces monetary authorities to maintain high interest rates to sustain investor confidence and greed' (Arestis 2006, p. 360). Financial liberalisation may also lead to 'high risk speculative transactions in the economy and to the increased vulnerability to financial crises' (Ibid., p.359).

4.3. A post-Keynesian Alternative

New Keynesian and FLH approaches continue to maintain that it is savings that drives the accumulation process, so economic policy should be concerned primarily with maximising the availability of *prior* savings and ensuring its efficient distribution. The firm appears as the agent in informational principle agent problems, where the market failure is located in the capacity of the banking sector to properly assess the credit-worthiness of borrowers, as a rent seeking member of the urban enclave or as an isolated and small rural firm. Firms are a passive partner in their relationship with the financial sector. In the absence of serious market failure and in the presence of fully liberalised financial markets the Modigliani-Miller proposition that the financial structure of the firm has no impact on the value or operating decisions is assumed to hold (Modigliani and M. Miller 1958).

The most fundamental critique of the FLH is to be found in the Keynesian and Kaleckian conception of the monetary production economy. The FLH rests on the principle that investment is dependent on 'prior-saving', hence the emphasis on attracting savings to the banking system. Schumpeter had long taken issue with the notion that banks simply advanced accumulated savings to finance starved firms, and believed that such a view would be consigned to history:

> '[for a] typical economist, writing around 1900… credit is quite independent of the existence or non-existence of banks and can be understood without any reference to them. . . . The public is . . . the true lender. Bankers are nothing but its agents, middlemen who do the actual lending on behalf of the public and whose existence is a mere matter of division of labor. . . . They add nothing to the existing mass of liquid means, though they make it to do more work.'
>
> (Schumpeter 1954, p.1113)

For Schumpeter in an economy at full capacity banks advanced credit to entrepreneurs who were then able to afford and recombine resources to create innovate products or processes that reconfigured the structure of the economy (Schumpeter 1954).

In Keynesian and Kaleckian models it is investment that leads to saving. Kalecki, manipulating national accounts identities, demonstrates that assuming that households don't save, wages finance consumption and firm savings are equal to profits. Using the Keynesian savings identity:

(1) $S = I + (G-T) + (X-M)$

And, distinguishing capitalist (S_C) and workers saving (S_W), capitalists' saving is as follows:

(2) $S_C = I + (G-T) + (X-M) - S_W$

Profits must equal capitalist saving and consumption (C_C) so,

(3) $P = S_C + C_C = I + (G\text{-}T) + (X\text{-}M) + C_C - S_W$

Capitalists can only determine their levels of consumption and investment, not profits. Therefore, capitalists' consumption and investment define profits. It is the decision of firms to invest that leads to the accumulation of savings.

Moreover, the distribution of profits among firms will influence the levels of investment by firms and sectors (to the degree that sector characteristics or distribution of firms within a sector determines the level of profits). Firms that command high profits and so can accumulate savings have access to a higher level of both savings and borrowed funds, assuming as will be discussed below that the possession of collateral influences access to credit.

4.3.1. Banks

The decision of capitalists to consume some portion of profits (and workers save, if the assumption is dropped) means firms must turn to bank credit to finance at least some portion of investment. Banks are therefore in a position to put a halt to any expansion in demand (Sawyer 2006). The 'amount of credit and money follows the demand for credit', and any economic expansion can be aborted by banks refusing to either provide loans, or raising the price of loans (Sawyer 2006, p. 172)[29].

The degree to which banks actually create money is a contentious one. Among post-Keynesians there are a number of different approaches, ranging from those who understand the supply of money to be infinitely elastic with respect to the Central Bank discount rate (Moore 1988), and those who see the banks and other factors as setting a limit on the supply of credit (Arestis and Howells 1996). Empirical studies suggest that the degree of endogeneity is closely related to the level of development of the banking sector (see below) and a country's financial institutions.

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29. Kalecki, therefore, is consistent with theories of endogenous money in arguing that it is loans that determine deposits (Sawyer 2006).

The ability to finance and fund investments and the direction of causality between savings and investment is determined by the level of development of the finance sector. Two prominent descriptions of the development of the finance and banking sector are provided by Lance Taylor and Victoria Chick. Lance Taylor developed his own 'stages' account of the development of finance in developing countries. For Taylor Stage 1 corresponds to an economic structure dominated by bank lending. Private businesses and households borrow from banks, but not from abroad. There are no equity or bond markets to speak of, so private and commercial bank bond holdings are zero. The government's total borrowing is from the central bank, whose only other asset is foreign reserves. The money supply is the sole liability of the banking system, and the only monetary instrument is the requirement that commercial banks hold reserves against deposits. The only other bank asset is outstanding credit or loans (Ocampo et al 2009). Stage 2 is the development of government or central bank bonds. Stage 3 is the ability of private actors to access external (hard currency) finance. Stage 4 finance features the development of stock markets.

Victoria Chick proposed a 'stages of banking approach' (Chick 1992). In the first stage geographically isolated banks operate as 'conduits' between savers and investors. Deposits are savings, whose supply stems 'from an increased supply of high powered money not wanted to be held in cash or from a change in the public's cash/ deposit preferences as confidence in the banks grew'. An extension of lending 'would entail a substantial loss of reserves even to the system as a whole' (Chick 1992). In the second stage banks have won the public's confidence and branching and consolidated clearing arrangements mean fewer deposits are lost after loan expansion and deposits are now a convenient means of payment. Using deposits for all transactions means they now represent 'all income whether destined for consumption or saving'. Stage 2 also holds the potential for the savings/ investment causality to be reversed, as banks can lend beyond the level of savings in the economy. At this point loans create deposits. In Stage 3 interbank lending mechanisms are further developed. Stage 4 sees the central bank accept full responsibility for the stability of the banking system, and by operating as the lender of last resort embolden banks further. Stage 5 sees banks develop liability management.

Dow and Ghosh (2008) apply Chick's stages approach to former Soviet bloc countries. Critiquing banking reforms in sixteen countries they argue that reformers ahistoricism and their inability to take into account the 'peculiarities of the soviet system' hampered the successful working of the system. One major problem was the difficulties many countries had in building and maintaining confidence in the banking system. Without such confidence it is difficult to reach Stage 4, or even Stage 3. Dow et al. suggest that there are a further four phases prior to Chick's Stage 1. Phase 1 is the period under central planning, in which there is a separation of corporate and retail banking. Phase 2 is the beginning of transition, characterised by hyperinflation and a complete loss of confidence in banks. The 'monetary overhang' generated under central planning is 'translated into hyperinflation', wiping out the purchasing power of bank deposits and eroding the public's trust in the banking sector'. Households turn to foreign currency and other assets to hold savings, and hold cash money for transactions. The demand for cash money increases following the expansion of the retail trade sector and wholesale markets. Supplies of cash money created by the Central Bank circulate outside of the banking sector. Non-cash money accumulates in the banking sector 'and a complete collapse of trust in banks meant that achieving immediate convertibility between cash money and non-cash money could only come at the cost of a an undesirably high rate of inflation'. As a result of difficulties attracting cash bank credits shrink affecting the liquidity of the system and a payments crisis in the enterprise sector. As a result enterprises start to use monetary surrogates.

Phases 3 and 4 are essentially the stages banks should pass through to in order to establish a modern banking system. In Phase 3 'a sound national currency must be established, usually through currency reform and the maintenance of moderate inflation. Modernisation of the payments system should follow suit, starting from the corporate banking system'. The purpose is to increase confidence in bank liabilities as a safe and liquid asset and to attract households' cash holdings. Phase 4 sees the maintenance of national currency and the extension of payments systems reforms to the retail banking sector. There will be an increase in deposit based transactions and banks' ability to create credit. Phase 5 corresponds with Chick's Phase 2, and '[b]ank liabilities will be accepted as fully-fledged money by both the corporate sector and the household sector. Banks will now be able to create credit endogenously'.

4.3.2. Funding and Financing

Both accounts of the 'stages' of financial development suggest that the understanding the relationship between firm financing and investment in a developing country requires a close analysis of the institutional development of the finance and banking sector. They also have implications for the ability off firms to 'fund' investments, a concept first discussed by Keynes (1937):

> 'The entrepreneur when he decides to invest has to be satisfied on two points: firstly, that he can obtain sufficient short term finance during the period of producing the investment; and secondly, that he can eventually fund his short-term obligations by a long-term issue on satisfactory conditions.'
>
> (Keynes 1937, p. 217)

Banks finance investments by advancing credit to firms. Firms then seek to fund their liquidity requirements in asset markets. Savings is a crucial requirement for the latter, rather than the former (Studart 1995). Credit expansion is then a function of the demand for finance, the willingness of banks to lend, and any exogenous constraints (by the central bank or government) on bank lending, and savings is primarily dependent on the level of income. All this assumes that the banking sector has reached Stage 2. There can only be a 'financial constraint' if, for some reason, banks refuse to advance firms credit (Davidson, 1986, p. 101). Nevertheless, bank financed investment and growth can lead to increased financial fragility and instability (Studart 1995), particularly as firms holding short term debt in need of refinancing will be dependent on future conditions of credit. Minsky's financial instability hypothesis and distinction between hedged, speculative and ponzi firms provides useful insights into the financial positions of firms (Minsky 1992).

Although limited savings need not constrain expansion its availability still plays a vital role in funding investments, and so managing borrowers' and lenders' risk and tempering unwelcome tendencies to financial instability. Financial markets thus play a crucial role as the *loci* of funding, and providing information for firms issuing securities, underwriters and those wishing to purchase securities (Studart 1995). In less developed financial systems with smaller and thinner asset markets firms become reliant on bank loans for their liquidity needs, however, loans themselves are more likely to be short term, as banks are reluctant to take on the risks of long term investments (Studart 1995). Such a situation can lead to financial instability, as firms become excessively leveraged and vulnerable to interest rate fluctuations, as well as shocks to other sources of income.

4.3.3. Capital Market Inflation and Overcapitalisation

Stock markets provide firms with the opportunity to both access long term finance and the opportunity to fund existing investments. This enables firms to reduce their reliance on bank debt for both finance and funding, and, in principle, facilitate larger investments at lower risk. However, the concept of 'funding' investments implies firms' interaction with asset markets is directly related to real economy operations. Firms 'only issue capital up to the point where the return from their commercial and industrial activities would exceed the cost of financing that capital'(Toporowski 2008). However, in practice firms issue capital beyond this point and invest the excess capital in liquid rather than fixed assets. Toporowski (2008) defines this 'excess capital' as the excess of a company's liabilities over its productive capital, i.e., the plant, equipment, materials, and stocks of unsold products and semi-fabricates that a firm holds'. 'If the return from these assets is less than is necessary to pay the cost of the excess capital, the margin between them is a 'cost of liquidity'' (ibid.) There are a number of benefits of such a strategy. Liquid assets provide firms with extra collateral, or firms can 'buy and sell companies in balance sheet restructuring that may be profitable as long as capital markets are inflating' (ibid.). Capital market inflation, induced by increases in domestic credit or foreign inflows, can provide such firms with potential profits that may even be greater than the costs of liquidity.

Drawing on the experience of Eastern European transition economies Toporowski argues that once financial markets become sufficiently liquid capitalists are able to realize capital gains by buying and reselling assets in inflating markets. In most developing countries markets are limited to real estate and once developed (as an outcome of the privatisation process) the stock market:

> 'Once financial markets are established then the obvious assets to use for this kind of speculation are financial assets. Real estate capital can be turned over more rapidly than industrial capital; financial assets can be turned over even more rapidly than real estate.'
>
> (Toporowski 2009, p.237)

This process complicates the balance sheet firm, which, it has been argued thus far, seeks liquidity to manage its survival in its primary *productive* activities. Toporowski points to the decoupling of finance from production. Firms with access to assets are able to pursue profits in asset markets; in the process further inflating them. Amit Bhaduri (2004) develops a model to discuss capital inflows to developing countries, and shows that the impact on productive investment depends on whether foreign investors 'purchase equities in the *primary markets* to finance the issue of new equities' or *secondary markets* and instead of calling forth new investments 'diverts investments more toward the acquisition and merger to create a 'financial bubble''. Rather than simply facilitating the financing of much needed investments financial deepening can affect firm strategies and economic stability. The concept of managing excess capital in inflated capital markets essentially corresponds to the potential of speculation raised by Arestis (see above) and others.

4.4. The Balance Sheet Firm and Financial Development

There are three elements to the balance sheet firm approach: that the principle of increasing risk is likely to apply in LDCs; that small and large firms will have different approaches to liquidity management, as well as the sorts and size of investments they make; and that the ability to manage liquidity will influence the likelihood of survival and that in managing portfolios firms can critically influence financial and other asset markets and, also, it was suggested move beyond purely liquidity management to the search for profit.

This section will explore some of the theoretical implications of these propositions and provide some empirical support.

4.4.1. Banks, entrepreneurial capital and the principle of increasing risk

The principle of increasing risk (PIR) and the distribution of entrepreneurial capital has substantial implications for both the FLH and Keynesian theories of financial development. The size composition of the firm sector becomes a determinant of the size of individual investments, and so potentially of the level of investment in the economy at large and also the likelihood of firm survival. The survival of firms is important, as in an economy in which firms are expected to grow 'organically' over time a proportion of the firm sector will be expected to grow over a substantial period. In a LDC banks tend to lend to firms that can provide collateral. The absence of secondary markets for assets pledged as collateral may provide a further limit to lending.

Such a scenario suggests that it is commonplace for banks to limit loans to the extent of available collateral (however defined), and for banks to charge higher rates of interest to firms they regard to be riskier propositions.

Empirical studies of the relationship between collateral and lending, and the range of interest rates facing firms are mostly testing New Keynesian concepts. In some respects the principle of increasing risk and the importance of collateral to bank lending is similar to the New Keynesian concept of credit rationing (Sawyer 1996). For example, the purpose of collateral was tested by Godlewski et al (2011), who ran a number of regressions testing the relationship between collateral and a risk premium, asking whether collateral is used by quality borrowers to signal their reliability (in which case there will be a negative relationship) or whether banks demand collateral from risky borrowers (a positive relationship). They concluded that the relationship is strongest in the presence of strong information asymmetries, and find some evidence that in developing countries collateral is used by firms to signal their reliability. More generally, their conclusions point to the importance of both the availability of collateral and varying interest payments as a determinant of the size of bank loans.

Others have examined the incidence of 'asset based lending' (ABL), in which banks only lend against physical collateral; and others have analysed the interest rates available to firms of different sizes. Tran Dinh Khoi Nguyen, Neelakantan Ramachandran for example, discuss the predominance of ABL, in which banks prefer to make loans backed with 'tangible' collateral (Tran Dinh khoi Nguyen and Ramachandran 2006). Queen and Roll (1987) argue that SMEs are likely to have a higher level of business risk, relative to large firms'. Firms with a high proportion of 'tangible' collateral are assumed to have better access to credit, as in moments of 'financial distress' they will be better able to liquidate their collateral. Wattanapruttipaisan (2003) pointed out that even in developed countries SME loans are regarded as a credit risk, and banks tend to insist on collateral. In one survey in the United States, for example, 92% of SME loans were secured, and 53% of total loans (Berger and Udell 1995). In France 76% of loans are secured, and in Germany 88.5% (Davydenko and Franks 2005). According to Miller (2001) and IFC (2000) many SMEs in LDCs lack collateral and so access to loans. Using a large data set Chakraborty and Mallick (2012) estimate the actual 'credit gap' for US firms, the difference between the desired and estimated levels of debt for credit constrained small businesses, to be an average of 20% for all firms, and 46% for manufacturing firms.

A number of studies have looked at the problem of SME financing in developing countries. Hill (2002), for example, examined problems with SME financing in ASEAN countries, and found that the vast majority of SMEs (between 70% and 90%) relied on own savings and short term informal borrowing for investment financing. The IFC (2000) found that in Ghana, Sri Lanka and Tanzania smaller firms had less access to bank loans than larger firms. Similarly, APEC (2003) showed that in Indonesia despite a period of rapid expansion in financial services for firms in the 'formal' sector only 12% of firms had access to bank loans.

4.4.2. Liquidity management in Small and Large firms

Liquidity management is closely related to the funding of investments as discussed above, and refers to firms' efforts to ensure they are able to meet upcoming cash obligations, particularly current costs and financial commitments. Liquidity management enables a firm to cope with unforeseen cash demands, and also to fund investments financed with short term bank lending. The inability to do the latter increases the firm's vulnerability and may discourage investments in the first place. It was argued in Chapter 3 that small firms are reliant on their 'primary activity' or 'income account'. As they have limited access to bank credit, face higher borrowing costs and also lack sufficiently liquid assets their liquidity is determined by the success of their business line, and by the availability of retained earnings. This partly affects the high mortality rates among small firms, particularly in developing countries[30].

Large firms, on the other hand, tend to develop alternative liquidity management strategies. Essentially, as discussed above, firms need to 'fund' their investments, particularly long term investments. Firms tend to wish to limit bank borrowing (Studart 1995b), and instead ensure a functional income account, and otherwise hold a portfolio of assets that provide both a steady income stream, and are sufficiently liquid to ensure they can be sold to meet short term commitments if the need arises.

The FLH ignores this state of affairs entirely. A liberalised and functioning finance and banking system is expected to provide firms with the financing required on the desired terms:

> '[A] perfectly competitive capital market will supply the economy with all its needs of financing, be it short term or long term; the time structure of the rate of interest will accommodate the intertemporal preferences and the risk aversion of the savers.'
>
> (Studart 1995, p. 271)

An alternative post-Keynesian account argues that as bank financing tends to be short term then firms need alternative means to 'fund' their investments. In developed economies the stock market, bond market and other markets for liquid financial assets provide this service. In LDCs firms must either rely on cash flow from their real economy activities, short term bank loans or the sale of liquid assets. Of course, firms might also

30. See Wattanapruttipaisan (2003) for a discussion of mortality rates and SME financing in ASEAN countries.

opt for relatively risk free and small scale investments, that require little prior financing and that will generate a rapid return.

Chapter 3 discussed the potential marriage of Kalecki and Steindl's distinction between large and small firms and Minsky's balance sheet approach. Large firms, it was argued, develop a portfolio of assets that can both provide cash flow and liquidity. They are thus able to meet their commitments following investments and also in difficult periods. Table 2 suggests four categories of firm: small, large, conglomerate and SOE, and in the columns possible sources of funding and liquidity.

Table 2: Firms and Financial Institutions

	Banks	Stock Market	Bonds	Government	Other
'Small' firm	PIR applies; limited collateral;	-	-	Possible Government programmes	Informal finance; owners' wealth and portfolio.
'Large' firm	Access depends on collateral and relationship	Possible source of finance and funding	Possible source of finance and funding	Source of 'rents'	Portfolio of liquid and income generating assets.
Conglomerate	Access depends on collateral and relationship	Possible source of finance and funding	Possible source of finance and funding	Source of rents; legislative flexibility	Establishes subsidiaries; establishes banks or other finance institutions
SOE	Access depends on collateral and relationship; possible access to dedicated investment bank.	Privatisation;	Government sanctioned issue	Subsidies; rents; loans; grants; determines autonomy.	Depends on government relationship;

Conglomerates are firms that operate in two or more distinct sectors, and so can draw on different sources of cashflow from their operations in the real economy[31]. 'Large' firms are firms classified as being of large size based on criteria such as capitalisation or

31. The Oxford Dictionary of Economics defines a conglomerate as 'a business conducting activities in different industries with very little in common' (Black 2009).

employees[32], but that operate in only one sector. In the absence of asset markets large firms are reliant on retained earnings, bank credit and their income account for liquidity, and for funding investments. Both Kalecki and Steindl suggested that large firms are also able to charge a mark up, something denied 'marginal firms', and so generate monopoly profits and retained earnings. Studies of large firms in a number of countries suggest that rents are a source of profits for many firms, lending some support to this assertion. Studart, for example, demonstrated that in the absence of domestic capital markets to fund investments Brazilian firms, benefitting from protected domestic markets, generated liquidity by increasing mark-ups on prices in protected sectors (Studart 1995b).

The literature on the corporate history of South East Asia provides some useful insights into the origins and strategies of large firms, and particularly diversified conglomerates. It demonstrates that the growth of many Southeast Asian conglomerates is underpinned by the state that either explicitly granted firms with access to relatively risk free rents, or, more implicitly, opted against regulating rent seeking behaviour[33].

The literature is divided as to whether such firms and their behaviour was a pragmatic response to the absence of formal asset markets that would provide funding opportunities to large firms operating in relatively unstable economic environments or a straightforward rent seeking. Yoshihara (1988) provides the classic argument that large conglomerates who not only pursue monopoly rents, but do so in deliberately low technology sectors requiring low levels of investment, give rise to 'Ersatz Capitalism', an economic model that limits productive investment, technological development and growth. Jamie Mackie (2002) and Akira Suehiro (2003), on the other hand, argue that whilst there are problems with the practises of large, politically connected conglomerates, their behaviour is primarily a response to the conditions and institutional environment in which they operated. In other words, in the absence of effective competition and modern

32. A common classifier of firm size is number of employees; however, as ownership of collateral is an important determinant of access to capital some measure of capital assets is also significant. For the purposes of this discussion it is only necessary that large firms are not significantly limited in access to credit because of a shortage of collateral and that they operate in fewer sectors than conglomerates.

33. See, for example, Doner (1992), Gomez (2002), Studwell (2007), Yoshihara (1988), Suhiro (1996), Hutchcroft (1994) and Hewison (1997),

institutions the diversified conglomerate form designed to maximise cash flow and build a portfolio of assets is an effective strategy. In Indonesia, for example,

> '[M]ost Indonesian conglomerates are highly diversified. This makes good sense in an uncertain economic or political environment, as a means of spreading risks, but it has hindered serious industrial commitment, and long term investment strategy. Liem Sioe Liong… controls a vast and heterogenous business empire, a rambling collection of enterprises. Cash flow and control of assets seem to be his primary aims, not corporate strategy or market dominance, and this is true of the other Indonesian conglomerate heads'.
>
> (Mackie 2002, p.181)

Brown (2006), on the other hand, in a seminal analysis of the 'corporate economy' in Southeast Asia argued that many corporations (the majority of those he studied) used 'size and diversified growth as a proxy for the fundamental risk of high debt burdens' (Brown 2006, p.334). Larger firms tended to have a larger debt burden. They diversified because they were highly leveraged. Diverse sources of cashflow lowered the risk of having to renege of repayments.

Other studies demonstrate changing strategies as business environments and, particularly financial institutions, develop. Wailerdsak (2008), in a survey of corporate structures and strategies in Thailand argues that firms that did respond to a changing environment tended to have fared better in the Asian crisis. Similarly, studies of individual corporations point to changing strategies as financial institutions develop (Sato 1994 and 2002). Even so, responses to financial development were not always benign. The most brazen, but not uncommon, strategy to secure cash flow was to establish or purchase a controlling share in lending institutions (Suehiro 1989). A number of firms, for example, exploited lax regulation and government contacts to establish banks whose primary purpose was to provide liquidity to firms within the group. Brown (2006), highlighted the importance of banks to corporate strategies in Indonesia:

> '…[C]orporate empires often had a family bank. Bank Central Asia (BCA), the largest private commercial bank in Indonesia, formed the

> core bank in the Salim Group. It was a major recipient of state revenues, foreign aid and foreign direct and portfolio investments, and had access to offshore banks as well as to diverse and innovative sources of finance such as derivatives. This capital abundance intensified corporate economic concentration… A further feature of concentration is the high percentage of loans to single individuals, or select groups of conglomerates.'
>
> (Brown 2006, p.11)

He goes on to discuss in detail the tendency of conglomerate owned banks to lend primarily to subsidiaries.

Stockmarkets were also a means to further build the diversified conglomerate. Once stockmarkets became firmly established, and in some cases inflated with foreign capital inflows many conglomerates built large stock and real estate portfolios, that were designed to generate speculative profits rather than a diversified source of cashflow (Habir 1999). Brown (2006) discusses the impact of inflows of portfolio capital into Southeast Asian markets in the 1980s and 1990s:

> 'The large concentrated positions of portfolio capital in targeting specific sectors of the economy (property, finance and currency markets), their herding and manipulative activities, not only increase speculation but assist in creating large diversified corporations in Southeast Asia, which are reluctant to specialise because diversification provided revenues, reduced risks and concealed problems of quality in subsidiaries and connected firms.'
>
> (Brown 2006, p. 149)

In summary, the corporate history of Southeast Asia suggests that one source of growth for firms in less developed countries is politically determined rents, and that such firms manage risk through diversification into relatively risk-free activities that provide cash flow to meet commitments and retained earnings for investment. Financial development, or more specifically, liberalisation of banking systems and capital markets, can provide the means to fund investments and better manage liquidity. However, it can also provide a means to generate cash flow and profit from the manipulation of a portfolio account, particularly in periods of capital market inflation.

4.5. Vision and Propositions

The discussion thus far in this chapter and in Chapter 4 suggests a clear 'vision' and a series of propositions or event regularities that can be explored in an empirical study of a developing country. This section will elaborate a series of hypothetical scenarios that may play out as an economy and its financial system develop. It will first outline an economy populated solely by small firms, suggesting that investments will depend on savings rates, the availability of collateral and prospects of survival. It will then suggest that in the presence of large firms asset markets might prove destabilising as firms choose to seek returns via their portfolio account. It will then explore the implications of state owned enterprises; one solution to the absence of entrepreneurial capital and less than optimal levels of private investment. It will finally set out a series of propositions that will be explored in the remainder of this thesis.

4.5.1. Private Sector Growth

One way to think through the implications of the balance sheet firm for understanding financial development is to develop a simple model in which firm types and financial institutions are gradually introduced. Beginning with a stationary state in which investment in each period is financed entirely by savings from the previous period, and in which it is assumed that either workers do not save, or that workers' savings is entirely passed on to firms, and all savings is used by firms. Using this simple framework it is possible to see the implications for a country's development prospects of the composition of the firm sector.

In such a hypothetical example of an economy populated entirely by 'small proprietorships', indeed much the same as that envisaged by McKinnon, Jan Kregel demonstrates that an economy may grow slowly (Kregel 1989). In a closed economy in which small firms are financed by their single owner's equity, all profits are invested and workers do not save the rate of growth will depend on the 'distribution of income as determined by a Kaleckian degree of monopoly within the limits of subsistence'. On the other hand if workers save then firms will need to borrow to finance investment in excess of net profits. 'But bank lending to small firms will be limited... by the value of the owner's assets available as collateral'. If workers' savings exceed the value of assets owned by firms accepted by banks as collateral then there would still be a deficiency of demand. The larger the average size of firms then the more likely the economy will grow over time. The evolution of the debt-equity ratio will 'depend on the relative size of profits and workers' savings in national income' (Kregel 1989). If savings exceed profits then the debt-equity ratio will tend toward unity. However, it is likely lending will cease long before this point is reached as lenders risk becomes too high, and as the interest rate correspondingly rises above the internal rate of return of investments, both increasing the reluctance of entrepreneurs to borrow and also increasing the incomes of lenders, and so increasing the savings rate further.

Although larger firms, in possession of greater collateral may be able to access credit in the absence of funding opportunities they will also limit the size of their investments relative to own capital so as to ensure their liquidity. The implication of the balance sheet firm is that the availability of funding opportunities has a bearing on the size and type of investment. In the absence of financial markets larger firms may choose to diversify sources of cash flow and limit the size and riskiness of investments, in the process limiting borrower's risk. Diversified cash flow also has the potential to provide a more stable source of financing for investments.

The need to fund investments, or in the absence of funding opportunities to limit financial commitments associated with fixed capital investments stems from the desire to remain sufficiently liquid and avoid insolvency. In perfect markets bankruptcy should have few wider economic implications, as assets can be resold costlessly in secondary markets. However, in developing countries such markets are imperfect. Moreover, although bankruptcy may have little wider economic implications, it will at the level of the firm, and so managers and owners will seek to avoid it. Theories of the firm that stress the accumulation of capabilities and intangible assets also suggest that there are economic losses associated with bankruptcy. If learning is a function of firm survival, and the size and complexity of investments then the type of firm that makes an investment and the chances of that firm's survival have a direct bearing on economic development.

The introduction of financial markets gives firms the opportunity to fund investments, and so, limit both borrower's and lender's risk. Financial markets then have the possibility of increasing the 'functionality' of financing systems and limiting financial instability (Studart 1995b). However, such an outcome also relies on the strategies of firms vis a vis markets. The balance sheet firm suggests that firm strategy can vary according to the buoyancy of markets. During periods of capital market inflation firms may choose to become 'over capitalised' and hold a greater portion of current assets - particularly cash and short term financial assets. This, in turn provides opportunities for speculation and accessing further loans, which may serve either to provide the firm with a portfolio of revenue generating liquid assets and so provide extra levels of stability or contribute further to capital market inflation and, in the event of a market downturn, increase the firm's financial instability.

Over time an economy may develop an enterprise sector with distinct categories of firms with regard to the finance and banking sector. Small firms, running an income account, with limited access to credit or finance markets will generally make smaller, less capital intensive investments. Mortality rates will generally be higher. Larger firms, able to generate greater revenues, will be able to make larger investments depending on profit margins and so available retained earnings. However, to ensure sufficient cash flow to manage commitments and an uncertain business environment they will also refrain from capital intensive investments and diversify their investment portfolio. The South East Asia experience suggests that such firms will likely seek to invest in areas with minimal competition.

The introduction of institutions that enable firms to 'fund' investments may facilitate more capital intensive investments, particularly by larger firms. The opportunity to exchange short term debt for equity will reduce commitments and decrease both borrower's and lender's risk. Those same institutions will also provide firms with the opportunity to better manage a portfolio account of liquid assets.

One way for developing countries to overcome the absence of large entrepreneurial capital is to directly finance large firm investments. The behaviour of firms will be determined by institutional rules set by the state. However, the state will have to decide the degree to which it manages firm liquidity by supporting firm efforts to fund investments. If the state chooses to allow firms' autonomy in their financial operations then they must have some means of determining the true intentions of SOEs with regard to diversification and interaction with financial markets. The following section discusses the possible implications of the balance sheet firm for state owned enterprises.

4.5.2. State owned enterprises

Economies undergoing institutional change from command economy to more typically capitalist structures present further complications. Most former members of the Council for Mutual Economic Assistance or Comecon adopted radical reforms, creating new institutions almost overnight. This thesis, however, will look in detail at the experience of Vietnam. Vietnam did not see the need to tear down all existing institutions, and construct what many saw as overtly capitalist institutions. Reform was a more drawn out affair. A commonly used phrase to describe the process is 'feeling for the stones to cross the river'[34]. The stated aim was to build an economy that was a mix of market and socialist institutions and attributes.

In a pure command economy all sectors are part of one administered whole, in which prices are primarily an accounting tool. The banking system is a mono-banking system, in which the state bank carries out all banking functions: currency creation, allocation of credit, creation and management of deposits, the management of foreign currency and so on. Firms are in essence factories. They are single productive units that do not possess or manage balance sheets. Using Minsky's schema they are plant, with the state taking the role of entrepreneur. However, unlike Minksy's entrepreneur the state is not primarily concerned either with revenues or costs (which are anyway difficult to measure), or with the value of assets and liabilities on the firm's balance sheet, as they also do not possess a market price, are not tradable and do not affect the firm's solvency, or liquidity (again an

34. The phrase is originally attributed to Deng Xiaoping.

unimportant concept). Transactions between firms are recorded in the banking system. Interaction with the outside world is typically in the form of barter. If there are private firms, they are typically small traders, possessing little capital.

Households are expected only to consume according to the plan. The state provides essential services such as housing, education and health care. As a result wages are low, and workers are often paid in kind. Households tend not to save, although some do hold accounts in the state bank, and nor do they require loans.

The process of 'reform' requires the sectors achieve a degree of separation, goods and asset markets must develop and channels for the flows of profits, wages, interest and transfers must come into being.

At the firm level there are two (or maybe three) distinct processes at work. The first, and most straightforward, is the establishment of new private enterprises. Such firms come into being in the post command economy period, and are not the direct result of some form of organisational transformation. Assuming there is no capitalist class and that equity markets are, if existing, small newly established private firms are likely to be have the following characteristics:

- They are single activity firms.
- They are almost entirely debt financed.
- Owners are likely to also be managers.

The second process is the transformation of state owned enterprises. As suggested above in the planning period SOEs are essentially factories, and do not possess their own balance sheets. Managers are concerned entirely with production, and are not required to consider issues such as strategy or finance. In becoming a functioning economic unit in a market orientated economy the firm takes command of its own balance sheet, and also of what it produces rather than simply how. However, in the absence of any substantive reorganisation of the firm sector SOEs remain single activity firms.

If SOEs are privatised then they effectively join the ranks of newly private firms. If not, and some form of state ownership is maintained then the state must make a number of decisions. The first is the distribution of profits. Profits can be distributed to investment as retained earnings, to shareholders as dividends and to government as either dividends or taxation, which amount to the same thing. Firms are financed via revenues, bank loans and transfers. Given the importance of SOEs to the success of the economic plan, policy loans are likely to depend less on firms viability as an economic entity, and more on the importance of the objective to the government.

First, it is possible to imagine a scenario identical to private sector led development. The government chooses to finance small, single activity firms that act either autonomously or according to some form of development plan. Either way firms would confront the principle of increasing risk, and the inability to protect themselves in the event of shocks to their primary (only) markets. Extra government expenditure takes the form of higher transfers to the firm sector, funded by taxation and/ or credit creation by state owned banks. The government must decide whether it limits itself solely to financing start up firms, or it also makes some form of commitment to the long term survival of such firms. The latter strategy would involve a commitment to support distressed firms and also to fund long term investments.

The latter commitment is particularly important if the government is pursuing some form of development strategy, as typically the justification for government intervention is large scale investment that might otherwise not be undertaken (Lin et al. 2001). This presents a separate set of issues associated with the government's stance on monopoly profits and also with strategies to ensure long run liquidity. As argued in Chapter 3 large scale private firms can limit their exposure to borrower's risk through the accumulation of retained earnings, which they source through mark-up pricing. In other words, such firms both achieve and maintain their large size through their ability to generate supernormal profits. Moreover, such firms are able to manage the vagaries of fluctuations in revenues in primary business lines by building a diversified portfolio of liquid real and financial assets, that both grant revenue streams and can be sold if necessary in asset markets.

A further consideration is the source of such profits. In some ways large firms in developing countries are the 'marginal' firms of Chapter 3. They tend to operate in markets with demand determined prices, and lack the capabilities to develop more profitable activities. As such building monopoly positions without state support is difficult. Moreover, exposure to unpredictable prices increases the risk of insolvency.

The second major attribute of the large balance sheet firm is the propensity to build a portfolio of assets to manage liquidity. This presents the government with a number of difficulties. First, firms are charged with the efficient and productive use of state funds to achieve a defined objective. As such investing in areas outside of the plan is likely to receive some resistance. From the perspective of a government looking to manage scarce resources, such investments look at best like the frivolous use of state funds, and, at worse, attempted theft. However, from the perspective of the firm, investments outside of core activities serve a crucial purpose, as a source of diversity, and as a means to build a liquid portfolio to better manage crisis. If the government insists firms devote the majority of their resources to their primary activity, then the government must in turn take some of the responsibility for the firm's liquidity. If not, then the government must be able to distinguish between speculative and legitimate projects.

4.6. Propositions

The literature discussed in this chapter, coupled with the discussion of the balance sheet firm of Chapter 3 suggests that any analysis of the relationship between financial development and economic development should incorporate a close study of the firm sector and the sources of both finance and funding for different categories of firm. The remainder of this thesis will undertake such a study in Vietnam, an economy that has undergone recent financial development and in which the state plays a considerable role. The discussion in this chapter can generate a number of propositions that can be explored empirically:

A. That small firms with limited collateral and reliant on their income account will both struggle to attract finance, and have restricted means to manage liquidity and 'fund' investments.

B. That large firms will have more liberal access to finance, but in the absence of the opportunity to fund investments will engage in typically small scale investments and/ or seek to diversify their sources of cash flow, and possibly develop a precautionary portfolio of liquid assets.

C. Following from proposition (B) large firms might choose to diversify into a number of unrelated sectors that require limited capital investment, and if asset markets are available may build a portfolio of liquid assets.

D. In the absence of financial markets firms will limit use to bank loans, as they will struggle to fund their loans, and will choose the 'conglomerate' form. Once financial markets are established firms will finance investments with bank loans and retained earnings and fund them with capital issues.

E. In the event of capital market inflation large firms may hold 'excess capital' and seek capital gains in capital markets.

F. State owned enterprises will be dependent on government for liquidity management; and/ or they will operate as large firms or conglomerates.

4.7. Methodology

A variety of approaches will be used to explore these propositions in Vietnam. Fundamental to the argument is that the development of financial institutions provides new instruments to firms to both finance *and* fund investments. Moreover, new financial instruments will stimulate new flows of funds within the economy, as will more liberalised reform of the economy. To this end Chapter 6 will develop a flow of funds analysis of the Vietnamese economy. It will seek to demonstrate the evolution of flows, and how institutional development has affected the change. It will look closely at aggregate flows as well as specific instruments such as bank deposits, bonds and stocks.

The next stage will be to look at the relationship between financial development and the firm sector in light of the discussion in this and the previous chapter. A number of techniques will be used:

- Existing firm studies in Vietnam will be consulted in order to seek insights into the changing relationship between the enterprise sector and the finance sector.
- An analysis of the World Bank enterprise survey for 2005 and 2009 in Vietnam will shed some light on the financial behaviour of smaller firms in Vietnam.
- A series of case studies of some of Vietnam's largest firms will provide evidence of changing strategies, and in particular strategies unique to the state owned sector.
- To investigate the role of the stockmarket on firm financing and funding behaviour firm balance sheets will be analysed. Listed firms are required to publish quarterly balance sheets, which are publicly available. However, few firms have been listed for longer than five years, and most are equitised state owned enterprises. Nevertheless, it is still possible to see if the general sequence as proposed by Davidson, Studart and others generally holds. Specifically, firms finance investments with retained earnings and bank loans, and later fund them with stock market issues, which would in turn be used to pay down accumulated debt. Such analysis will also enable analysis of whether state firms operate differently to private firms, and whether firms forego banks loans, or issue shares purely for liquidity reasons.

4.8. Conclusion

The Financial Liberalisation Hypothesis suggests that policies to liberalise the finance system in developing economies will serve to improve access to finance for firms that in underdeveloped financial systems and systems characterised by financial repression struggle to secure capital for investment. Empirical studies of the key tenets of the FLH suggest that the relationship between financial liberalisation and economic growth is more complicated and nuanced than its proponents suggests. The causal relationship between financial development and economic growth is questioned in a number of studies, as is the relationship between interest rates and savings. Other critiques emphasise the importance of institutional factors that fall outside of empirical studies of the impact of financial development, as well as the destabilising impact of foreign capital flows. Post-Keynesian approaches to financial development and the role of the finance sector present more fundamental challenges to the FLH. Specifically, post-Keynesian approaches invert the relationship between savings and investment, and emphasise the role of the finance system as a source of *funding* as well as *financing* for firms. Victoria Chick and Lance Taylor propose accounts of economic development that emphasise a series of stages in which key institutions come to influence the economy. This chapter suggested that the ideas developed in Chapter 3 contribute further to post-Keynesian approaches to economic development. It argued that the balance sheet firm implies that in the absence of institutions facilitating liquidity management and the funding of investments firm behaviour might differ according to the level of financial development. Moreover, adapting the insights of Kalecki and Steindl different types of firms might interact with the finance and banking sector in different ways, suggesting that the composition of the enterprise sector will have a bearing on the impact of financial development. The discussion was also extended to economies in which governments sought to compensate for the absence of entrepreneurial capital by supporting enterprise development. As and if state sponsored firms were granted autonomy, funding and liquidity management needs would present challenges to both government and the financial system. These ideas will be explored further in the remainder of this thesis in a study of Vietnam.

Chapter 5: Institutional Reform in Vietnam

5.1. Introduction

In this and the following two chapters, the ideas developed in Chapters 3 and 4 are explored in the context of Vietnam. Vietnam is an interesting country of study for a number of reasons. In a period of continuous reform, known as *Doi Moi*, Vietnam has grown from one of the world's poorest countries to middle income status (USD 1,000 per capita per annum). As a former command economy reforms in Vietnam have concerned not only the development of the private sector, but also the state sector, enabling analysis of the state owned enterprise as a possible solution to the absence of private entrepreneurial capital in a less developed country. Banking reforms have also encompassed both the dismantling of a mono-banking system and then the liberalisation of the banking sector in line with WTO commitments. In this Vietnam is unusual as it has been slow to adopt the tenets of the Washington consensus. This allows consideration of both the impact of liberalisation of enterprise and banking sectors and policies to retain control of the developmental process through restrictions of both the enterprise and financial sector.

5.2. Vietnam - Background

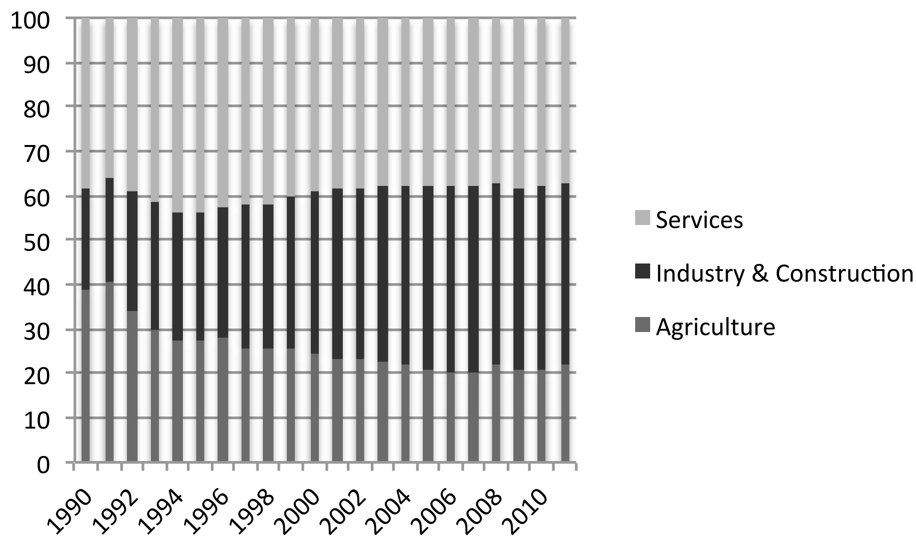
Vietnam has made remarkable progress since the beginning of the 1990s. GDP growth rates have averaged 7.6 percent. Slowdowns can be directly attributed to the Asian crisis and the more recent global financial crisis. In that time all the significant economic indicators show considerable development. Vietnam's economic interaction with the outside world grew dramatically, aided in part by a string of trade agreements. Trade (imports plus exports) grew from 23 percent of GDP in 1986, to 97 percent in 1998, to 171 percent in 2008[35]. From a position of near famine in the mid-1980s Vietnam became a net exporter of agricultural output by the mid -1990s, and is now one of the leading exporters of rice, rubber, seafood, coffee, garments and footwear. Vietnam is also an

35. The global financial crisis forced a reduction to 131 percent of GDP in 2009.

attractive destination for foreign investment. In 2009 registered FDI capital stood at over USD 29 billion[36].

The Vietnamese economy is also undergoing rapid structural change. Distinguishing between a manufacturing sector and an agricultural sector we can see that since the mid-1990s manufacturing output increased as a proportion of total output at the expense of agriculture (Figure 1).

Figure 1: Contribution to GDP by Sector (%)



Source: GSO.gov.vn[37]

The manufacturing sector is employing increasing numbers of people every year and the proportion of the labour force working in agriculture is falling. People are moving from the countryside to work in urban areas or semi-urban areas. Although more detailed data are hard to come by there is enough to paint a rough picture of a changing agricultural landscape. According to the Ministry of Agriculture and Rural Development (MARD) since 2001 land devoted to crops has dropped from over 4.3 million ha to 4.13 million ha. In 2007, land devoted to rice cultivation fell by 125,000 ha. By 2020 another 600,000 ha

36. Again, economic difficulties across the world has affected the rate of growth in FDI since 2009.

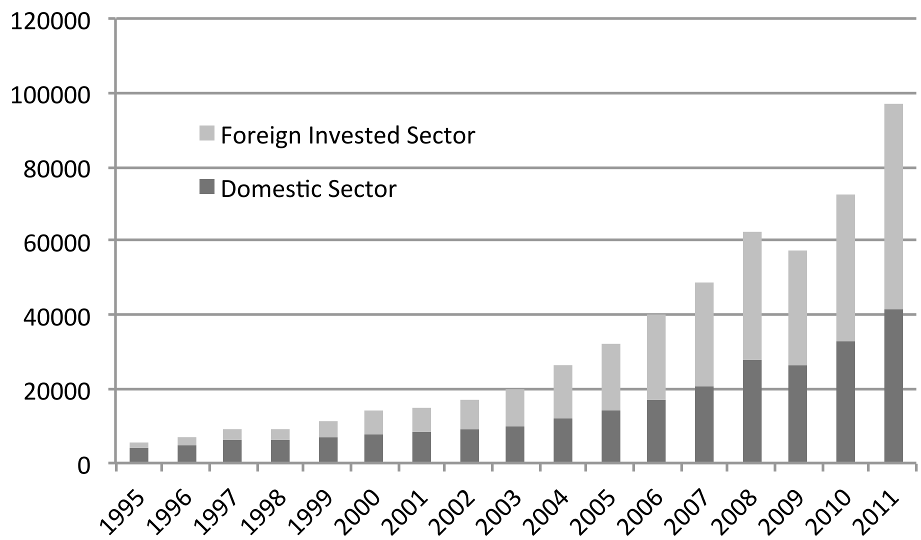
37. http://www.gso.gov.vn/default_en.aspx?tabid=468&idmid=3&ItemID=12980, accessed 28th June 2012.

of land will be converted to nonagricultural uses and a further 300,000 of paddy planted with more lucrative crops (MARD 2008).

A significant proportion of the growth in manufacturing is attributed to the growth in foreign direct investment. The World Bank estimates that 189.6 trillion VND, or 58 percent of total investment by the business sector (including State Owned Enterprises) in 2007 was foreign direct investment, portfolio investment or foreign lending (World Bank 2009). At the same time 53.3 percent of manufacturing sector revenues was from exports. Much of that from foreign firms based in Vietnam.

Foreign and private firms have also become increasingly significant in terms of total output. Figure 2 shows that the foreign invested sector has also come to dominate exports.

Figure 2: Exports of Foreign and Domestic Sector (Mill USD)



Source: GSO.gov.vn[38]

The rapid changes in the Vietnamese economy have occurred during a period of ongoing reform termed '*Doi Moi'* (renovation). Reform has touched every aspect of the economy.

38. http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=13129, accessed 28th June 2012

The following sections will outline the main contours of reform, specifically with regard to enterprise reform, banking and finance and foreign investment.

5.3. Doi Moi.

Few suggest that the objective of Government policy in the 1980s and early 1990s was to create an orthodox market economy consistent with the 'Washington Consensus'. However, it is unclear to what extent anyone had much of an idea where they were going. Although the outcomes of reform tended to suggest a movement toward a conventional market economy, they were also a movement away from something that wasn't working. As Dang Phong, one of Vietnam's more prominent economists, has argued:

> 'An interesting feature of the Vietnamese reform is that its leaders aimed to repair the old model; they certainly did not intend to move towards a market economy. But each attempt at repair took them a step further away from that which was to be repaired. Only when one foot was already on the new shore could it be seen that there was nothing dangerous, in fact many things were better, and the new model could be affirmed.'
>
> (Dang Phong 2004, p. 76)

In many ways the last thirty five years of Vietnamese history has been a protracted search for a 'model' that both worked and ensured the 'leaders', or the Communist Party, remained in power. Following the occupation of the South of Vietnam in 1975 the North Vietnamese government sought to build the institutions of a command economy across the country. However, policy makers soon met with resistance and difficulty. Waging war with Cambodia and then China, and coping with the most destructive monsoon in over eighty years certainly didn't help matters. Vietnam also suffered from its decision to join the Council for Mutual Economic Assistance (Comecon) in 1978. During the American war Vietnam had received aid from the Soviet Union amounting to approximately one billion dollars a year (Dang Phong 2004). The Vietnamese government used the money to buy supplies for the war effort, inputs into production and essentials for the population. Prior to full accession to Comecon in 1978 Vietnam was entitled to generous discounts on the price of key items. They could, for example, purchase petrol at a fraction of the price paid by Comecon members. Joining Comecon and so paying the full price drastically reduced the quantity of items purchased with Soviet aid. The effect was to handicap attempts to impose the institutions of a command economy, limit the ability of the state to provide inputs to firms and purchase outputs, and, in the process, put firms themselves under severe pressure. By 1979-80 the majority of enterprises across the country were running at fifty or even thirty percent of planned capacity:

> 'Every type of good was scarce in the market. This was a period in which coal was often used to run automobiles and tyres had to be retreaded. The state shops had insufficient amounts to sell in relation to the ration coupons for cadres and soldiers. In many months coupons for meat could only buy tofu or Mongolian mutton fat'.
>
> (Dang Phong 2004, p. 56)

Workers were paid in kind and traded their wages on the street. A black market thrived. By 1980 'free market' prices were three times those of 1976; by 1985 three thousand times and by 1986 nineteen thousand times (Pham and Le 2003). Proponents of some form of combination of plan and market began to find they were listened to. Vietnam also saw a resurgence of a phenomenon known as 'fence breaking' (pha rao)[39], in which the strictures of the plan were tested. Rice was sold at market rather than official prices, unofficial trading took place between industrial units, households signed contracts with SOEs and 'one price systems' - in which state prices and market prices became one and the same - were established across the country. Fence breaking appears to have been a considered response to the more unworkable aspects of the command system[40]. The general outcome was the relaxation of the more intractable planning regulations, the

39. The tradition of fence breaking apparently goes back to the early 1960s. See (Dang Phong 2004).

40. There is some debate as to the significance of fence breaking, the complicity of high ranking officials and the degree to which reforms were 'bottom-up' or 'top down'. See (Fforde and Vylder 1996) and (Dang Phong 2004).

improved productivity of many firms and, for individuals and families, more reliable access to food and other goods. Fence breaking also led to and was accompanied by new legislation that worked to dismantle the more cumbersome and economically damaging aspects of the planning system. The general approach to reform was sanctified in the VI Party Congress in 1986, now regarded as the official launch date of *Doi Moi*. At the Congress it was proposed that Vietnam should become a 'multi-sector economy', involving state, foreign and private business and a 'commodity economy' (a euphemism for market economy (Dang Phong 2004); the focus on heavy industry should be abandoned and replaced with the production of food goods, export goods and consumer goods and Vietnam should adopt a more open policy to the outside world. In effect the Plan was abolished and Vietnamese SOEs were able to recruit workers, set wages, purchase their own inputs, sell their own output and borrow capital for investment. They also had access to foreign exchange and direct access to foreign markets was permitted. Nevertheless, the Government maintained significant control over the 'commanding heights', and identified industries it wished to maintain some control over.

In dismantling a pure command economy, and enabling firms and individuals to sell and purchase goods and services at market prices the Government began the process of building a 'market economy with socialist characteristics'. In 1979 a resolution was passed that effectively granted individuals and collectives the right to establish and operate businesses. The state monopoly of foreign trade was gradually relaxed from 1980 onwards. In 1981 the 'three plan system', which gave SOEs the legal right to trade at market prices outside of the plan, was established[41]. From 1981 official prices were gradually bought into line with prices revealed in the unofficial free market and after 1989 SOEs paid world market price for inputs from other state owned units. The official price system was dismantled, and rouble and dollar rates were fixed at market rates. In March 1989 subsidies to state enterprises were abolished, interest rates were brought above the rate of inflation and the savings rate raised to thirteen percent a month. To increase its attractiveness to foreign investors, open potential markets for domestic enterprises and to discipline domestic firms and interest groups the GoV sought

41. Plan A was that of the centre, Plan B an agreement between enterprises and local authorities and Plan C the right of enterprises to sell excess output in the open market (Dang Phong 2004).

membership of major trade organisations and agreements. In 1992 Vietnam signed a trade agreement with the European Union. In 1996 Vietnam joined the Association of Southeast Asian Nations (ASEAN), eliminating tariff and non-tariff barriers with other ASEAN countries. In 1998 Vietnam joined APEC, and in 1999 signed a most favoured nation (MFN) agreement with Japan. In 2000 after several years of negotiation Vietnam signed a bilateral trade agreement with the United States (USBTA) and in January 2007 twelve years after the original working party was established Vietnam finally acceded to the World Trade Organisation (WTO). The USBTA and prospective accession to the WTO called forth new enterprise, investment and competition laws (discussed further below).

5.4. Enterprise Reform under Doi Moi

In Vietnam enterprise reform refers to the restructuring of the state owned enterprise sector and the granting of rights to private enterprise. Both aspects of reform have proved contentious as the relative position and contributions of both sectors has for so long been of political as well as economic significance. The issue is complicated by the sometimes ambiguous status of the private sector, the apparently illegal role of private capital in state enterprises in the 1980s and 1990s, and foreign investment in Vietnamese firms.

5.4.1. State Owned Enterprise Reform

The planning period was not particularly successful. Most SOEs were forced to go outside of the plan for inputs and customers, yet still retained 'social' responsibilities[42]. By the beginning of the 1990s most firms were poorly equipped. A 1992 survey found that there was a direct relationship between the date of an enterprises' establishment and the vintage of its equipment (Beresford and Dang Phong 2000). Many firms continued to use machinery originally purchased in the 1960s and 1970s. One textile mill used second

42. Many firms were expected to provide a range of services to employees and local communities, and were discouraged from firing workers. Well into the 2000s firms employed, mostly elderly, workers who had no hope of adapting to modern production methods.

hand equipment originally used in 1930s England. Melanie Beresford recounts a conversation in the mid-1990s:

> ‘About a decade ago, many of the SOEs were described to me by a retired senior Communist as ‘deformed’ – a textile mill, for example, may have spinning and weaving plants, but be ‘missing a leg’, namely, the dyeing plant. Others had been cobbled together from a range of different (Soviet, Chinese, East European) sources and could not operate as an integrated plant. Further, in explaining why the state was unwilling to privatise, dissolve or break up the SOEs, he argued that ‘they are our children and we cannot eat our children.”
>
> (Beresford 2008, p. 226)

SOEs also suffered from their subordination to state planning. Although the strict planning system had broken down by the late 1980s, firms remained constrained in other ways. Investment was channelled to the establishment of new SOEs, rather than supporting existing ones, which were expected to succeed on their own (Beresford 2008). As late as 1992 firms were still returning their depreciation fund to the state, and submitting applications for new funds (ibid.). Over half of SOE’s fixed assets were depreciated by more than 50 percent and a quarter had fixed assets depreciated by less than 30 percent. Only fifteen percent of output was estimated to be suitable for export, although seventy percent was apparently good enough for domestic consumption (Beresford 2008). The remaining fifteen percent, absorbing approximately ten percent of working capital, could not even be sold on the domestic market (Phan Van Tiem and Thanh 1996). The reform programme was a response to the profound undercapitalisation of state owned companies and an acknowledgement that what capital there was was spread too thin (Beresford 2008). There were three aspects to SOE reform. Firms were liquidated, restructured through a programme of merger, or equitised (a form of privatisation in which a proportion of state assets was sold to enterprise managers and workers). Equitisation would serve to reallocate state capital from ‘sectors and branches of the state sector which are not important to the national economy, do not necessarily need state capital, or require an element of share ownership to be held by the state' (Phan Van Tiem and Thanh 1996). Equitisation was also designed to break the hold of line ministries on SOEs[43]. The reform process proceeded in fits and bursts. Between 1991 and 1994 the total number of SOEs fell from over 12,000 to 6,000. Of these around half were liquidated, two thousand combined with other state firms and the rest sold off. Between 2001 and 2005 another three thousand firms were restructured, and two thousand equitised (World Bank 2009).

Another plank of the reform programme was the formation of General Corporations (GCs) in 1994. They were an attempt to consolidate firms in the same or related industries. Firms were brought together under the command of a Head Quarters, which essentially became the head of a holding company. They also had a social objective. General Corporations were expected to turn around failing companies that still employed a significant numbers of working age people. They were also an attempt by the GoV to retain control over the economy's 'commanding heights' and drive the industrialisation process forward. State owned enterprises were increasingly asked to operate on the same terms as private and foreign owned firms. Although firms were not expected to abide by the same legislation until 2010 successive 'enterprise laws' (culminating in the 2005 Unified Enterprise Law) and SOE laws dismantled the barriers between them. The objective was to force SOEs to respond to market pressures and was also a response to donor pressure and trade agreement commitments. State owned enterprise reform and restructuring did result in increases in productivity, although this was associated more with reductions of the labour force and consolidation. In 1990 and 1991 for example, approximately 750,000 people lost their jobs. In 2000 and 2001 many more were made redundant following a further round of redundancies. The ability of SOEs to derive productivity gains from more progressive sources has proved more difficult. Explanations as to why have largely focussed on the investment decisions of SOEs, and the efficiency of those decisions. Since the 1980s SOEs have appeared to shun their 'core business', preferring instead to pursue side lines in other areas, particularly, and most

43. As a response to the shortages of the 1970s and early 1980s line ministries and provincial authorities relied on SOEs as a source of revenue.

controversially real estate, and more recently financial activities. Beresford saw the strategy as a consequence of the poor quality of firms' primary assets:

> 'Since rent-free access to high-value urban land has been one of the few marketable assets that SOEs could use as a source of revenue, there was much participation by industrial SOEs in the real estate and hotel boom of the early 1990s.'
>
> (Beresford 2008, p. 231)

Beresford (2008) and Phan Van Tiem and Thanh (1996) argued that as most SOEs had limited access to capital many abandoned their main business lines. Instead opting for 'trading activities, tourism and transport services'. Many even resorted to selling off fixed capital for cash in order to meet short term requirements. Even so:

> 'Some of those SOEs with relatively large capital bases have shifted their investment into restaurants, hotels and joint ventures. Yet at present, the government is unable to regulate such shifts in investment and business operations by SOEs.'
>
> (Phan Van Tiem and Nguyen Van Thanh 1996, p. 25)

Given the ease of entry into these areas SOEs faced increasing levels of competition from non-state enterprises, many of which were actually SOEs 'penetrated' by private capital:

> 'Surveys have shown that many state owned retail commercial centres, transport companies, and tourism enterprises are state-owned in name only with private persons operating the businesses, having rented the premises, equipment, facilities, and even the legal status of the SOEs.'
>
> (Phan Van Tiem and Thanh 1996, p. 28)

Other profitable lines were trading activities, where firms were able to benefit from short term credit. Chi Do Pham and Duc Viet Le (2003) suggest that SOEs had little choice as their primary activities were always bound to be uncompetitive. By the late 1990s, they argue, firms found themselves producing goods for which global and domestic demand was saturated, leading to difficulties exporting, stock piling of inventories and deflation. More recent surveys have demonstrated similar patterns. Cheshier and Penrose (2007), for example, found that SOEs felt duty bound to maintain their core business, but were increasingly seeking to diversify into other apparently non-productive investments. Managers cited the profitability of alternative activities, difficulties mastering advanced technologies and breaking into new markets as the main reasons (Cheshier and Penrose 2007). Such strategies have attracted much hand wringing by senior government and party officials as well as the media. A string of articles have called attention to firms' speculative practices, asking whether the interests of Vietnam are being well served.

5.4.2. Private Sector Reform

As one might expect the GoV's attitude to the private sector has always attracted controversy. There are, for example, many anecdotal accounts of local and sometimes central opposition to the private sector. Private enterprise has long been a source of revenue for local authorities, and many, particularly in the 1990s and early 2000s, imposed informal fees and other forms of taxation. Private firms have also suffered from weaker property rights than state owned and foreign firms (Rand et al. 2008). Nevertheless, even during the late 1980s, in a period particularly inhospitable to private enterprise, the 'non state sector' produced nearly 40 percent of industrial output (Dang Phong 2004). Subsequent reforms have sought to dismantle barriers to private sector growth. Successive Enterprise Laws (discussed above) have given private entrepreneurs the right to establish and operate firms on the same terms as other forms of enterprise. Private firms can take the form of limited companies, joint-stock companies, partnership companies and private enterprises (Nguyen Dinh Tai 2006). Emphasis has been put on simplifying the procedures involved in establishing privately owned firms, and reducing restrictions on business activities of private firms. A number of studies have demonstrated that reforms designed to improve the business environment have been successful. In a recent survey of firms across Vietnam research project found that private firms now face 'lower entry costs, better access to land, smaller time costs, reduced informal charges, a more pro-active local government, better private sector development programmes, greater labour flexibility, and a better legal environment' (McCulloch et. al. 2013, p.21).

Similarly, the World Bank, whilst emphasising the continued dominance of the state sector find that most obstacles to private sector development have been dismantled (World Bank 2011). Nevertheless, although the number of private enterprises operating in Vietnam has increased significantly, the majority remain small and struggle to grow:

> 'Vietnamese private firms are able to establish operations and may relatively easily grow to employ several tens of people, but reaching the ranks of medium sized and large firms is difficult for those enterprises that are not successful exporters.'
>
> (Hakkala and Kokko 2007, p. 32)

McCulloch et al. (2013) found that the improvements in the business environment and the removal of legal and most institutional obstacles to private sector development do not appear to have contributed to increased levels of private sector investment.

Reforms have, then, tended to dismantle obstacles to private sector development, and at the same time seek to reform the state owned sector. However, as will be demonstrated further in the following chapter, despite the removal of many barriers to growth, private firms remain relatively small, and state owned enterprises, despite a process of equitisation and the removal of some if not all privileges continue to dominate much of the economy (World Bank 2011).

5.5. Financial and Banking Reform

The difficulties of the 1980s highlighted the importance of the ability to raise and direct investment capital. As with enterprise reform it is something of a surprise how conventional banking and finance reform has been. Reforms essentially pursued three objectives. The first was to overcome the shortcomings of the planning system and bolster the country's state owned sector. The second, was to provide investment for infrastructure. The third, particularly after the 1997 Asian crisis, was to satisfy the requirements of foreign investors, by better managing inflows of foreign capital, and responding to concerns about the number of nonperforming loans held by the state owned banking sector. The commitment appears to be toward the development of conventional financial institutions. This section will outline the main banking and finance sector reforms and then discuss the relationship between firms and the banking and finance sectors. The first major reform was the creation of a two tier banking system in 1988.

Tier 1 was the State Bank of Vietnam (SBV), Tier 2 four State Owned Commercial Banks (SOCBs), themselves spinoffs from the SBV. Originally, the SOCBs had specific roles. The Investment and Development Bank (IDB) of Vietnam focussed on medium and long term financing of SOEs; the Industrial and Commercial Bank of Vietnam (ICBV) offered commercial banking services; the Vietnam Bank for Agriculture and Rural Development (VBARD) offered credit and services to farmers and the Vietcom Bank handled foreign exchange and trade finance. There was however no actual separation between the SBV and the SOCB as the SBV influenced the appointment of SOCB management (Ben Ang Siew Hock et al. 1997). However, more recently banks, although not abandoning their traditional responsibilities have begun to branch into new areas (World Bank 2009).

As Figure 3 illustrates banking reforms in Vietnam were primarily aimed at bringing Vietnamese banking practices in line with developed country standards, gradually liberalising the banking system by allowing the entrance of private (joint-stock) and foreign banks, and relaxing constraints on SOCBs. A 2005 initiative called for the equitisation of SOCBs by 2010. The financial crises means that thus far only two have been equitised. In total there are four major and one minor SOCBs, 37 JCBs, six JVs and two development and policy banks.

Figure 3: Timeline of the Major Finance and Banking Reforms since 1990.

1990: Non-state Joint Stock banks, joint venture banks and representative offices of foreign banks were allowed to set up offices in Vietnam.
1993: Interbank market for VND established.
1994: Interbank market for foreign exchange established.
1995: Minimum capital requirement of commercial banks established at 6.4 million USD in HCMC and 4.6 million in Hanoi
1996-2002: Deregulation of domestic interest rates on both VND and foreign currency deposits and loans.

1997: Law on State Bank and Law on Credit Institutions

1999: Government commits to separating policy from commercial lending.

2000: Banks allowed unsecured lending to SOEs, FIEs, Joint ventures between domestic and foreign firms.

2001: Banks allowed to use Land User Certificates (LUCs) as collateral.

2000: HCMC stock exchange (HOSE) established

2000: Re-Capitalization of banks in response to NPLs following Asian crisis

2005: State Owned Commercial Banks (SOCBs) restructured, and commitment to equitise by 2010.

2005: Banks have to improve their credit classification system to allow for the calculation of NPLs and loan provisioning closer to international standards. However, by the end of 2008 only two commercial banks had completed the process (Suiwah 2009).

2005: Investment Law: "investors shall be permitted to invest in all sectors and in all industries and businesses which are not prohibited by law," and "the State shall provide equal treatment before law to all investors from all economic sectors and as between domestic investment and foreign investment."

2006: Law on Securities to facilitate the development of the securities market. The law covers the regulation of listing and trading securities; the State's role in administering and inspecting the securities market; the public offer of securities; the disclosure and corporate governance of public companies; the organization of trading markets; depository, clearance and payment facilities; investment management and fund companies; information disclosure; inspections and dispute resolution.

2007: Foreign banks allowed to enter the Vietnamese market according to an agreed timetable.

2007: State bank licensed eleven rural institutions to operate in urban areas. As a result credit growth reached 95 percent (Suiwah 2009).

2007: Ceilings placed on bank lending to finance share purchases, and an embargo on bank financing of banks' security trading affiliates.

2008: SCIC established

2008: Stabilization package, aimed at tightening bank liquidity and raising bank deposit rates.

Source: Unless otherwise stated Leung (2009), Nguyen Xuan Ngja (2005) and Van Arkadie and Mallon (2003)

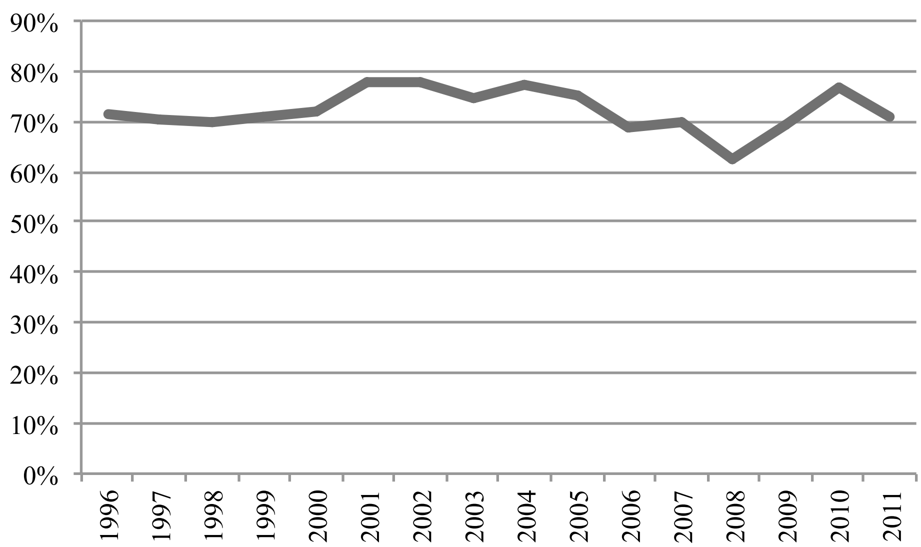
The banking system has struggled to mobilise funds from the Vietnamese population. According to the World Bank in 1995 the banks raised only one third of total funding requirements (World Bank 2009) SOCBs borrowed the remaining two thirds from the SBV and foreign banks (Nguyen Xuan Nghia 2005). Van Nhu Dang suggests that banks generally refused to make the effort to tap into the savings of the majority of the population. Small firms and households relied on the substantial informal finance sector:

> ‘In brief, what went wrong in the financial sector in Vietnam was that the banks, instead of being an intermediary fund from savers to its best users, only acted as a pawn-shop for private borrowers and as a credit distributor for SOEs.’
>
> (Van Nhu Dang 2003, p. 55)

By 2008 the only ten percent of the population were estimated to have a bank account (Leung 2009). Nevertheless, Bank deposits as a share of GDP doubled between 1990 and 2000 (from ten to twenty percent), and bank credits from 13 to 25 percent. There were also substantial changes in the proportion of loans to the private sector. By the mid-2000s the private sector received 60 percent of SOCB credit. More recently there has been an increase in the number of private banks, many associated with SOEs. In 2007 fifteen SOEs submitted banking applications. Three were granted in 2008 (Leung 2009).

Another recent and accelerating trend is foreign banks. There are, at the time of writing, three foreign banks operating in Vietnam: Standard Chartered, HSBC and ANZ. Vietnamese banks have also been taking on ‘strategic investors’. By 2008 five out of the ten largest JSBs had taken on a foreign strategic investor (Bank 2009). The unofficial financial system has always been important in Vietnamese economic life. Rather than diminish in the face of recent reform, it appears to be as significant as ever. Figure 4 illustrates the amount of cash (VND and foreign currency) circulating outside of the banking system.

Figure 4: Cash in Circulation Outside the Banking System (%)



Source: IFS 2011

Thirty eight billion dollars worth of gold and foreign exchange is currently estimated to reside in private houses, businesses and gold shops. This compares to USD 26 billion worth within the banking sector.

5.6. Stock Market Reforms

There are now, in effect, four stock markets in Vietnam. The Ho Chi Minh City Securities Trading Centre was established in July 2000 with two stocks and a market capitalisation of USD 31.5 million. It was upgraded to the Ho Chi Minh Stock Exchange (HOSE) in August 2007. The Hanoi Stock Trading Centre (HASTC) was opened in March 2005. A parallel, informal, market, the 'Over the Counter' or OTC market developed over the course of the decade. In 2009 in an attempt to bridge the gap between the OTC and the HOSE and HASTE a fourth, the UNCOM, more tightly controlled than the OTC was established. There are currently nearly two thousand stocks listed on the OTC market.

Both the HOSE and the HASTC are supervised and managed by the State Securities Commission, part of the Ministry of Finance. Companies can list in Hanoi if they have been profitable for one year and in Ho Chi Minh Minh for three years. The State Capital Investment Corporation (SCIC) represents the State as an investor where the state retains a majority interest in SOEs. Approximately twenty percent of equity stock is owned by foreigner investors. The Vietnamese Stock Exchange is scheduled to equitize and go public in 2010. There are approximately one hundred private security companies trading. Many are small, although a few are backed by foreign partners.

5.7. Foreign Investment

To raise capital, upgrade domestic enterprises and drive the industrialisation process Vietnam turned to foreign investment. To some degree Vietnam has always been been dependent on foreign capital and technology. By the late 1980s it had to find a way to replace the Soviet Union as the source of investible funds and technology. The key policy tools were trade agreements which also sought to make it easier for foreign firms to establish plant and operate in Vietnam:

> 'WTO accession in early 2007 is the latest significant step in the process of legal and economic reform. In debate in Vietnam on potential WTO impacts, discussion quickly moves from tariff commitments to finance and insurance, telecommunications, wholesale and retail trade, and energy, where foreign firm operation in Vietnam rather than cross border trade is in focus. We keep this in mind as we move on to review existing modelling of Vietnam's trade agreements.'
>
> (Abbott et al. 2009. p. 347)

The 1987 Law on Foreign Investment (revised in 1990, 1992, 1996 and 2000) first codified the rights of foreign firms settling in Vietnam. Changes in the law have tended to increase the rights of the foreign investor and close the policy gap between domestic and foreign investors. According to the Vietnamese Central Institute for Economic Management (CIEM) changes in the law are a response to an increasing appreciation of the importance of FDI to the Vietnamese economy, increased competition for FDI in the region and international commitments (Nguyen Thi Tue Anh et al. 2006). Key developments included making it easier for FIEs to develop greenfield projects, the removal of foreign currency restrictions, relaxing constraints and fees relate to repatriation of profits and increasing the areas in which foreigners can invest including the proportion of equity in Vietnamese companies. Recalling Vietnam's objective to create a 'multi sector' economy the IX Party Congress in 2001 classified the Foreign Invested Sector as 'one of the six sectors of the economy' (Nguyen Thi Tue Anh et al. 2006). This marked a change in official thinking. For much of the 1990s the objective was for FDI to bring capital, technology and managerial skills to the domestic sector through the medium of the joint venture. The 2001 proclamation acknowledged that the operation of foreign firms within Vietnamese borders was an end in itself. Throughout the 2000s the GoV has officially sought to attract high technology firms and large multi-nationals, with little active though given to the transfer of technology or other positive spillovers (Penrose et al. 2010).

Vietnam was an important destination for FDI through the 1990s. Masina (2002) argues that FDI inflows were 'disproportionately high considering the limited dimensions of the national economy'. In 1996 for example, foreign investments in Vietnam were higher than India, South Korea, Taiwan and Thailand. As a percentage of GDP inflows were higher than the regional average (Masina 2002). Beresford (2008) points to the significance of the East Asia bubble in the 1990s to levels and types of investment in Vietnam. Across the region companies were investing in real estate and other speculative projects. Vietnam was no exception. Real estate investments comprised 40 percent of total investments in 1995, 42 percent in 1996 and 7.6 percent in 1997. Investments in industry also declined (Masina 2002). Moreover, FDI in Vietnam was predominantly regional in origin. Its decline in the late 1990s was due largely to reduced outflows from regional investors, and not necessarily a function of Vietnamese policy. Despite fears following the Asian Crisis accession to the WTO and other trade agreements seems to have attracted further inflows of direct and indirect foreign investment. Before the global financial crisis and Vietnam's own problems in 2007/2008 foreign direct investment was over USD 29 billion. However, again a high proportion is in real estate and other speculative projects. For example, in 2008 three quarters of total registered FDI comprised of eight large projects, six of which were large property investments (Harvard 2008).

5.8. Conclusion

Since the late 1980s and early 1990s a series of far reaching reforms referred to as *Doi Moi* have brought profound and far reaching change to the Vietnamese economy. The pace of reform accelerated once Vietnam acceded to the World Trade Organisation in 2007. Reforms of relevance to this thesis concern the liberalisation of the banking sector, the development of stock markets in Hanoi and Ho Chi Minh City and the reform of the state owned and private enterprise sectors. The mono-banking system, the basis of the command economy, was dismantled. In its place increasingly autonomous state owned banks now operate side by side with private joint stock banks and foreign owned banks. State owned enterprises deemed to be unsustainable were liquidated or merged with others, and firms in similar sectors were brought under the umbrella of 'General Corporations'. A series of 'enterprise laws' gradually ensured that most state owned enterprises were subject to the same regulatory system as private enterprise. Although the state retained an ownership share in many firms most were gradually granted increased autonomy, albeit with some constraints. Restrictions on private enterprise were also lifted, and reforms set about encouraging the development of the private sector. Accession to the WTO also coincided with relaxations on foreign capital flows, and the development of stock markets in Hanoi and HCMC. After 2007 the Vietnamese economy, whilst still dominated by the state sector, saw the emergence of an increasingly dynamic private sector, a more autonomous state owned sector, a liberalised finance sector and, as the following chapter will demonstrate, substantial inflows of foreign capital. All of these factors combined, it will be argued, marked the beginning of a new chapter in Vietnam's economic development and presented firms with the opportunity to adapt their financial strategies.

Chapter 6: Vietnam - Flow of Funds

6.1. Introduction

This chapter will present a flow of funds analysis of Vietnam, a fast developing economy undergoing a period of financial development, in which the state has intervened heavily in the enterprise sector. The objective of the chapter is to explore the ideas developed in Chapters 3 and 4. Specifically: the implications of state ownership as a means to overcome the absence of private entrepreneurs; the funding and financing of state enterprise in a period of financial liberalisation; and the impact of financial development on the private sector.

The chapter will be organised as follows. Sections 6.2 and 6.3 will present a flow of funds analysis of Vietnam, arguing that a combination of domestic reforms (as outlined in Chapter 5) and foreign capital inflows have created three distinct periods, each with a different set of financial flows. Sections 6.3.1 to 6.3.3 look more closely at the banking and financial sector. Section 6.3.4, making use of Government Statistics Office (GSO) enterprise survey looks more closely at the firm sector, showing how different firms responded to financial development. Section 6.4, using a World Bank Survey and other studies will look more closely at smaller, private firms. Section 6.5 concludes.

6.2. Flow of Funds

Flow of Funds (FoFs) accounting depicts the flow of financial instruments between sectors, which in turn enables analysis of how sector deficits are financed and how surpluses are used. The top part of flow of funds matrices typically represent income and expenditure flows. The bottom part of the matrix shows balance sheet flows. The columns represent the key economic sectors: Households, Productive Firms, Commercial Banks, the Government and the Central bank. Both rows and columns must sum to zero. The zero-sum rule represents the budget constraint for each sector, describing how 'the balance between flows of expenditure, factor income and transfers generate counterpart changes in stocks of assets and liabilities' (Godley and Lavoie 2007). Everything comes from somewhere and everything goes somewhere. A negative sign indicates a flow of funds from the sector, and a positive a flow to the sector. Uses of flows (a negative sign) represent the purchase of a consumption good or financial asset. Sources of funds represent receipt of a money flow from the sale of a good or asset.

Flow of funds analysis has been used in the study of developing countries since at least the 1950s, however, more recently its use has been limited. In the 1990s a number of economists exploring the implications for post-Keynesian ideas in developing countries adopted FoFs models. For instance John Dawson and Stephen Everhart looked at the impact of twin deficits in Kazakhstan (Dawson and Everhart 2000), Stephen Peachey used FoFs analysis to look at the early years of economic transition in Romania (Peachey 2000); Anna Kerekes and John Holsen looked at fiscal imbalances in Hungary and Russia respectively (Kerekes 2000) (Holson 2000); and Lin and Schramm looked at China (Lin and Schramm 2006).

Flow of funds analysis, whilst extremely useful, has some limitations. It is difficult to determine causal relations between data. Flow of Funds is developed from national accounts identities, which are true by definition. As a result any interpretation of FoFs is dependent on the theory employed. In most countries, and particularly developing countries there are data limitations. Ideally actual values at the time of the transaction should be recorded. Often, however, transactions are derived from changes in balance sheet values and the prices of assets are rarely recorded at actual market value. Data are suspect and incomplete. Financial data, in particular, poses a number of problems. Firms are reluctant to reveal too much about the state of business, and banks often have problematic reporting procedures. Smuggling, off balance sheet activities and ‘informal’ markets mean that many transactions are unmonitored and unreported. All of these problems plague Vietnam. Nevertheless, the data are of sufficient quality to provide in, albeit broad brush strokes, the key trends of the last decade or so.

A further problem, that also applies to Vietnam, is that many countries, particularly developing countries, do not break down data into required sectors or units. For example, the enterprise sector includes all enterprises, regardless of ownership, size or sector. Similarly, financial instruments might be grouped together. Nevertheless, despite these limitations FoFs analysis can still shed light on the workings of developing countries:

> ‘In developing economies, where markets are more fragmented, and securities markets are invariably thin and illiquid, prices provide much less useful policy information. More information of quantities, particularly on the flow of funds, would be very valuable for policy makers. Thus, the flow of funds could play an important role in developing countries to aid the study of financial sector development and resource mobilization issues so as to identify the effects of financial sector policies for promoting poverty and reducing economic growth’.
>
> (Green et al. 2002, p.1)

This thesis in particular, is more interested in the broad trends of the developmental process in Vietnam.

The methodology adopted in this chapter is closely based on the work of John Dawson who was a champion of flow of funds analysis in developing countries. In an analysis of the impact of the Asian crisis on Thailand Dawson demonstrated that it is possible to develop a basic flow of funds using the IMF’s International Finance Statistics (IFS)[44] and Government Financial Statistics (GFS). Unfortunately, Vietnam no longer adheres to the IMF’s requested format for gathering and presenting National Accounts data[45]. As a result government statistics are taken from various IMF Article IV publications and statistical appendices. In these the IMF estimates its preferred figures, and these are used to construct government accounts. The approach is to build a series of worksheets, each representing one sector over the time period in question[46]. Because of the aggregation of the data it is only possible to assemble data for the Government, the Central Bank, Deposit Banks, the Rest of the World (RoW) and the Private Sector. The private sector

44. The most recent data (June 2012) can be downloaded from http://esds80.mcc.ac.uk/wds_ifs/TableViewer/tableView.aspx?ReportId=41222.

45. Personal correspondence with IMF representative in Vietnam.

46. The worksheets can be found in Appendix ?

includes households, firms and any other units not represented elsewhere. This is obviously problematic, particularly for this study.

To attempt to overcome the problem this chapter adopts a number of strategies. The IMF Article IV for Vietnam includes data for bank lending by bank ownership type. It also breaks down lending by sector. The IMF published Article IVs for Vietnam in 2006, 2008 and 2012. This data will be used in Section 3 of this chapter. Recently a number of banks have published annual reports and financial statements on their websites. Many of these give further details of sources of deposits as well as loan portfolios. Where appropriate such data will be used to shed more light on lending practises.

The General Statistics Office (GSO) of Vietnam publishes a range of statistics. Unfortunately, it does not list financial data. However, it does publish data on investments by sector and ownership type. Investment differs from gross fixed capital formation, and cannot be used as a direct substitute. Also under the auspices of GSO Vietnam undertakes an annual enterprise survey, that collects data for ownership of assets and liabilities. The survey breaks down ownership further, by size (in terms of assets, revenues and employment) and by ownership type. The Non-State sector is further broken down into a number of sub-categories.

The World Bank has published the data from two enterprise surveys in Vietnam, one in 2006 and one in 2009. The survey covers predominantly small and medium sized enterprises, and provides further insight into the financing and funding behaviour of firms.

6.3. Vietnamese Flow of Funds

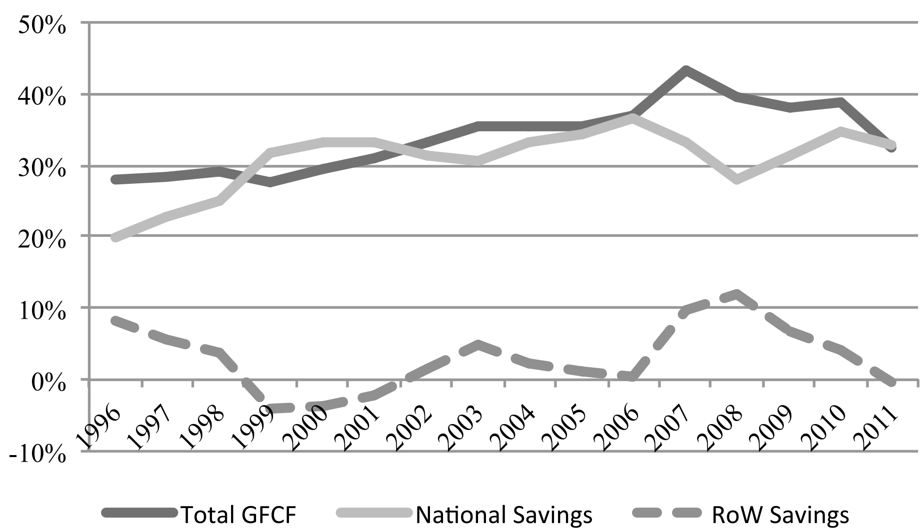
This section will present flow of funds analysis based on the technique adopted by John Dawson in his analysis of the impact of the Asian crisis on the Thai economy (Dawson 2004)[47]. Figure 5 illustrates gross fixed capital formation (GFCF) in Vietnam, gross domestic savings and the savings of the foreign sector (defined, after Dawson, as the Vietnamese current account deficit with sign reversed). Unfortunately, it is impossible to

47. See Appendix 6 for worksheets used to derive Figures 5 to 15.

begin earlier than 1996. Nevertheless, it is possible to find data for all variables between 1996 and 2011.

Over this period annual gross fixed capital formation, as a percentage of GDP, rises at a relatively constant rate, increasing by approximately ten percentage points. The split between domestic and foreign funding, however, oscillates over the same period. Figure 5 suggests three distinct periods that correspond to internal reform and external events. Until 1999 total investment exceeds domestic savings, leading to a deficit with the rest of the world (RoW). Following the Asian crisis the annual rate of capital accumulation steadies at about 25 percent of GDP; the fall in foreign saving is countered by a rise in domestic savings. Over the next few years, as Vietnam embarks on another round of reforms, foreign savings show positive growth, as does the rate of capital accumulation. Accession to the WTO in 2007 brought forth a large inflow of foreign funds in the form of both direct and indirect investment, which corresponds to a fall in domestic savings and a rise in investment.

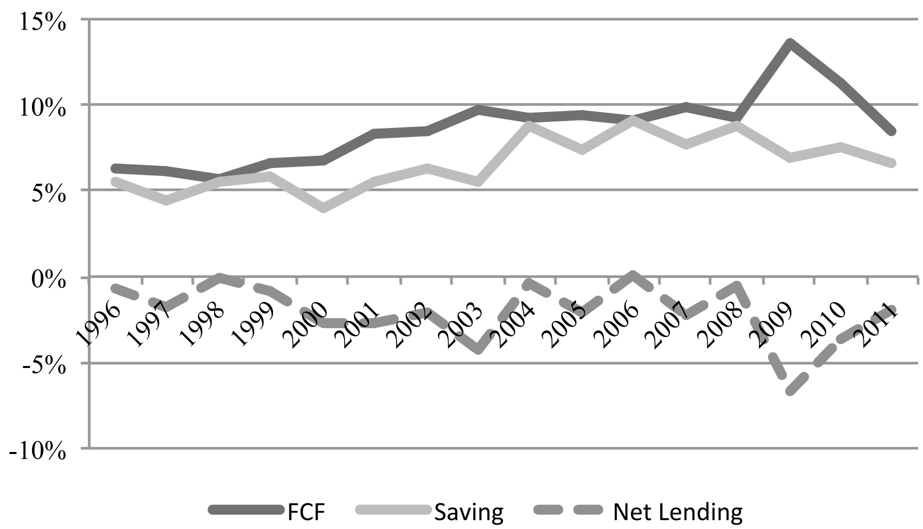
Figure 5: Gross Fixed Capital Formation and Savings (% of GDP)



Source: International Financial Statistics (IFS)

Figure 6 represents fixed capital formation and savings for three broad sectors: Government, the rest of the world and the private sector, which is a residual and includes both households and firms. The Government and private sector also include the net lending position. As the rest of the world does not actively carry out investments only the net lending position is represented. Figures 6, 7 and 8 illustrate the three periods in greater detail.

Figure 6: Government FCF and Net Lending (% of GDP)



Source: International Financial Statistics (IFS), IMF Article IV and IMF Statistical Appendix[48], GSO National Accounts Statistics[49]

In the late 1990s Gross Fixed Capital Formation was dominated by the private sector. Government investment remained at approximately five percent of GDP, with little change in the government deficit. Private sector investment, on the other hand, grew faster than savings suggesting a private sector deficit with the RoW. The decline in foreign investment, attributable to the impact on the Asian crisis on the South East Asian

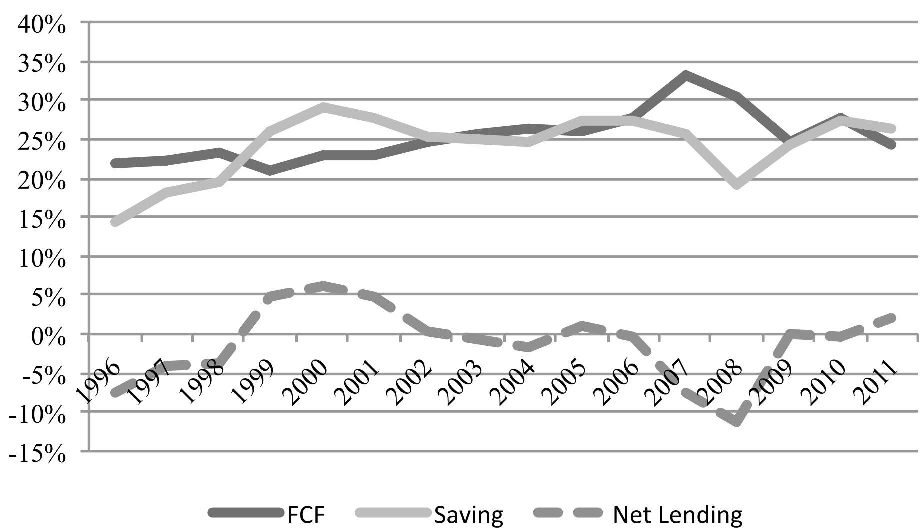
48. IMF Article IV 2012, 2010, 2008, 2006. IMF Statistical Appendix for Vietnam 1998, 1999, 2000, 2002, 2003, 2006, 2007. Accessed at http://www.imf.org/external/country/vnm/index.htm.

49. http://www.gso.gov.vn/default_en.aspx?tabid=468&idmid=3, accessed June 22nd 2012.

region appears to have prompted an increase in government investment, with a steady expansion of the deficit as a result. The net lending positions of the other two sectors suggest the deficit was funded first by the private sector, which achieved a surplus following a reduction in imports by foreign firms, and then the RoW, as FDI recovered.

The crisis following WTO accession triggered an increase in government investment, which, along with foreign savings, financed private sector capital accumulation. All three sectors are now approaching a zero net lending position, with the private sector apparently in surplus, the result of a decline in investment rather than an increase domestic savings, corresponding to a concomitant fall in foreign funding.

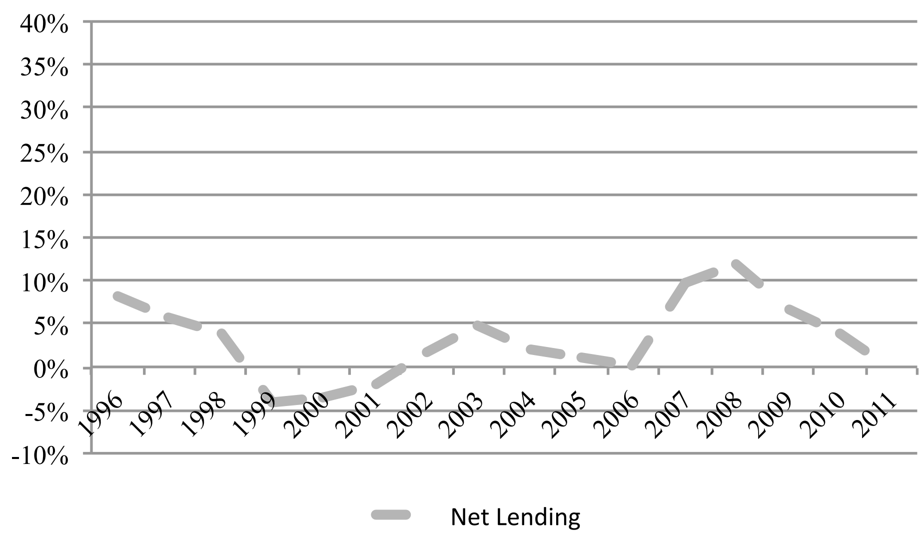
Figure 7: Private Sector FCF, Saving and Net Lending (% of GDP)



Source: International Financial Statistics (IFS), IMF Article IV and IMF Statistical Appendix, GSO National Accounts Statistics. Own calculations.

Rest of the world net lending, the inverse of the current account deficit, closely follows flows of foreign direct and indirect investment (Figure 8), which in turn reflect the response of foreign, particularly regional investors to first the Asian crisis, then Vietnam's accession to WTO and most recently concerns over the Vietnamese economy, and the impact of the global financial crisis.

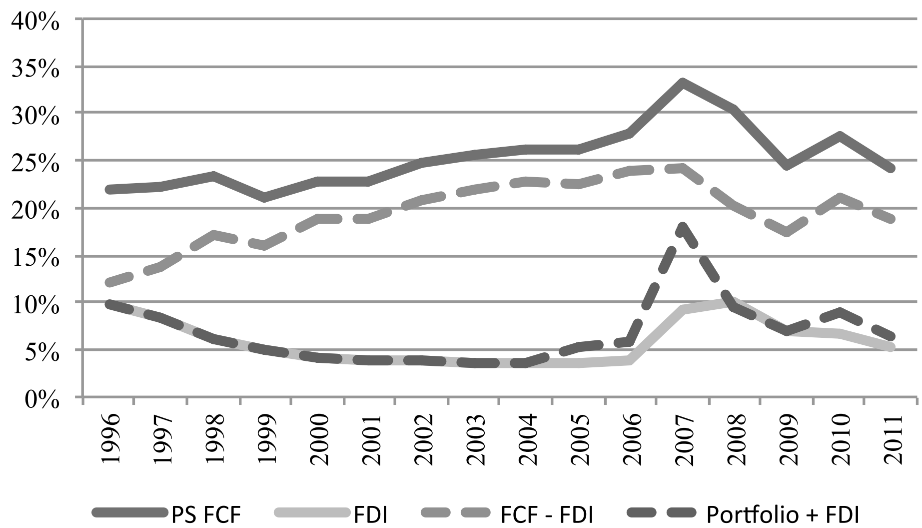
Figure 8: RoW Net Lending (% of GDP)



Source: International Financial Statistics (IFS)

Figure 9 illustrates the dramatic increase in the inflow of portfolio capital in the lead up to and following Vietnam's accession to WTO. Investors sought value in the Hanoi and HCMC stock markets after the Government increased the proportion of domestic equity foreign investors could hold, and the drive to equitise state owned enterprises saw an increase in the number of firms listed on both stock exchanges between 2005 - 2007.

Figure 9: Contribution of Foreign Direct and Indirect Investment (% of GDP)

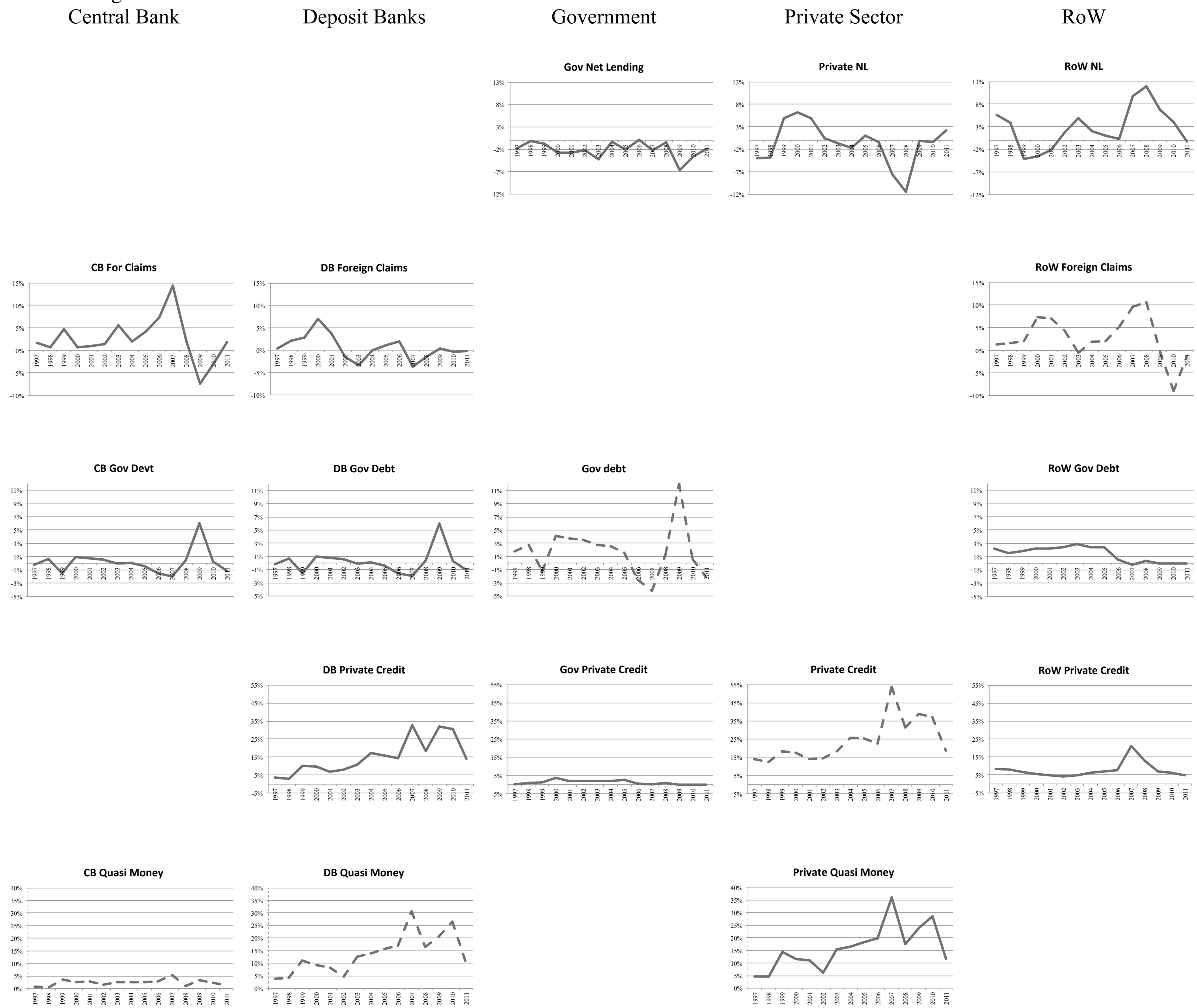


Source: International Financial Statistics (IFS)

Figure 10 illustrates the sources and uses for each sector's net balances. The columns correspond to five broad sectors: the Monetary Authorities (the State Bank of Vietnam), Deposit Banks (State owned Commercial Banks and Joint Stock Banks), the Government sector (Central and Provincial Government), the Private sector (all firms and households) and the Rest of the World (RoW). In theory the rows should all sum zero. The dotted lines, which represent a sector's liability, should equal the total value of the total use of each instrument. Although this is not always the case it is possible to discern general trends.

As indicated above there appear to be three distinct periods represented in Vietnam's flow of funds: 1995 - 1998/9; 2000 - 2005/6; 2006 - 2011. These three periods help to organise the data in Figure 10. In Period 1 (1995 - 1998/9) the

Figure 10: Sector Uses and Sources



private sector is in deficit to the rest of the world. The government is in balance, with minimal increases in debt to either the private or foreign sectors. Foreign savings enters Vietnam as reserves held in the banking sector and State Bank and as direct investment in the private sector. Foreign reserves appear to have been used to run down the government's debt with the State Bank and the banking sector. The remainder is extended as credit to the private sector via the banking system. Nevertheless, the growth in private sector credit remains below five percent of GDP until 1998.

In the second period (2000 - 2005/6) Vietnam runs a (slight) balance of payments surplus with the rest of the world as firms reduce imports. Increased reserves lead to an increase in the quantity of broad money and quasi money. Foreign direct investment falls as government investment and government lending to the private sector increases. There is also a steady increase in private credit, despite the reduction in foreign lending. This stems directly from the banking sector, and continues despite the continued private sector surplus. The government deficit is now primarily funded from foreign debt. The Asian crisis also triggers rapid and deep reforms of the banking system and the enterprise sector. The impact of these reforms will be discussed below.

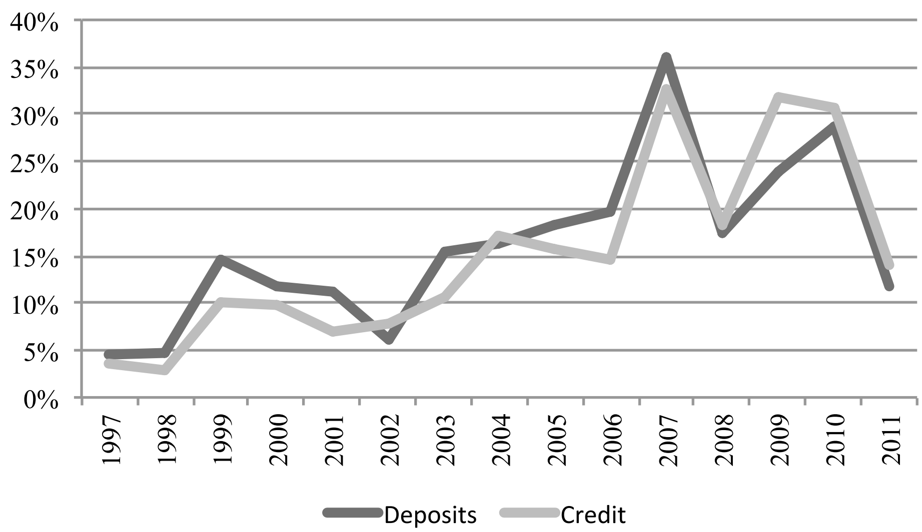
The third period begins with anticipation of Vietnam's accession to the World Trade Organisation (WTO) in January 2007. The private sector's net lending position reverses relative to that of the rest of the world. A fall in the relative rate of growth of domestic saving corresponds with an increase in foreign funded investment. Vietnam also experiences dramatic increases in portfolio investment, which, unsterilized, corresponds to an increase in the money supply. However, an increase in bank credit also accounts for a large proportion of private credit. Figure 10 indicates that the increase in credit does not fully translate to an increase in real investment. As will be discussed below, a sizeable proportion of credit expansion funded investments in the stock markets, and much real sector investment was in the real estate market.

The boom, triggered by foreign inflows, and leading to extensive capital market, real estate and price inflation created a general economic crisis for Vietnam in 2008 - 2011. The period corresponds to a decline in private credit and foreign inflows as FDI grows wary, and foreign export markets decline. The government, in response to falling investment and general distress sought to stimulate the economy, generating domestic debt.

6.3.1. Finance and Banking

Underlying the flow of funds analysis is institutional change in the banking and finance system, that correspond to a process of financial deepening as measured in terms of the growth of deposits and the increasing use of other financial instruments.

Figure 11: Deposit Bank Credit and Money (% of GDP)

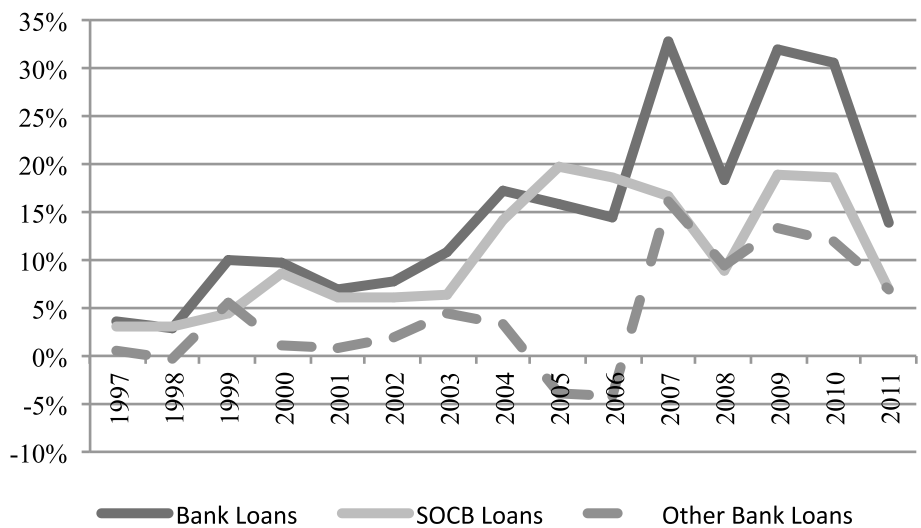


Source: International Monetary Fund, Staff Reports for Article IV Consultations for Vietnam, 1999 to 2012.

Despite the growth in a number of financial markets, Vietnam remains a predominantly bank based system, with deposits and loans as a proportion of GDP doubling between 2002 and 2008. Even so, only between ten and thirty percent of the population make use of the banking system, with the majority of bank users living in urban areas (Leung 2009). The remainder of the sector has shown signs of development, but remains relatively small. Insurance and pension funds have remained stable as a proportion of

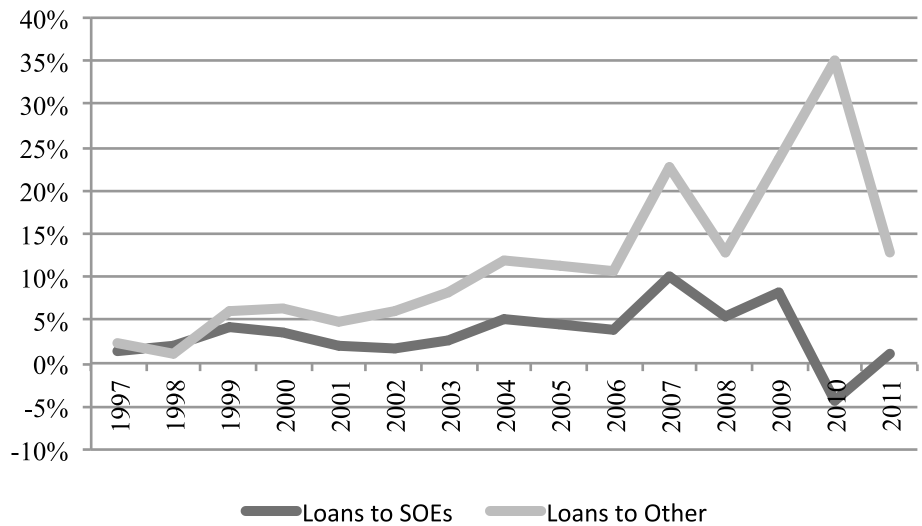
GDP. The bond market has grown, but as will be discussed below, there are limited secondary markets. Like the stock market it grew substantially in 2007, partially as a result of changing regulation and increased confidence in Vietnam as a response to its accession to WTO.

Figure 12: State Owned Commercial Bank Loans and JSB Loans (% of GDP)



Source: International Monetary Fund, Staff Reports for Article IV Consultations for Vietnam, 1999 to 2012.

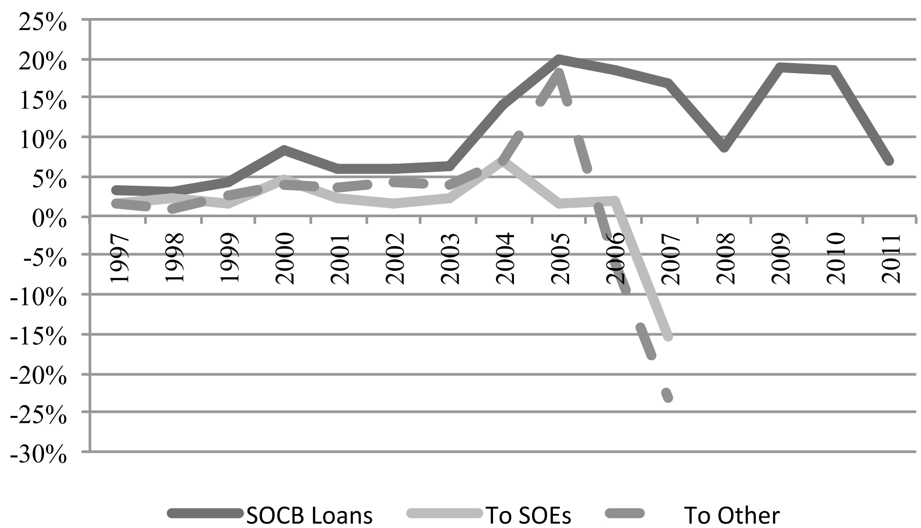
Figure 13: Total Bank Loans to SOEs and Non-State Sector (% of GDP)



Source: International Monetary Fund, Staff Reports for Article IV Consultations for Vietnam, 1999 to 2012.

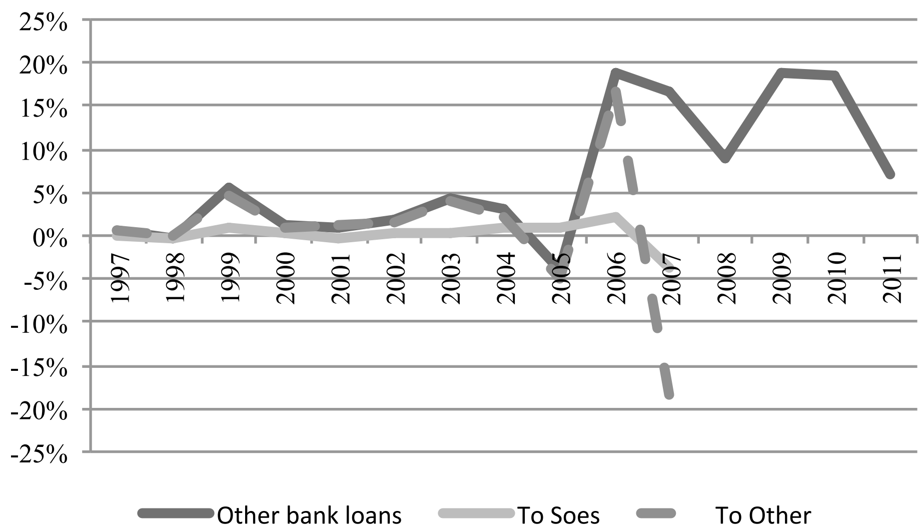
The crisis appears to have hit the SOE sector the hardest. This was due to a cap on credit growth, particularly to the SOE sector, that is regarded to be the primary culprit for speculative investments between 2007 and 2009. A number of SOEs have also been restructured, with the state holding less than fifty percent, suggesting a further reason for the decrease in credit growth.

Figure 14: SOCB Loans to SOEs and Non-State Sector (% of GDP)



Source: International Monetary Fund, Staff Reports for Article IV Consultations for Vietnam, 1999 to 2012. Note: Data for non-state and SOE loans 2008-2011 not available.

Figure 15: JSB Loans to SOEs and Non-State Sector (% of GDP)



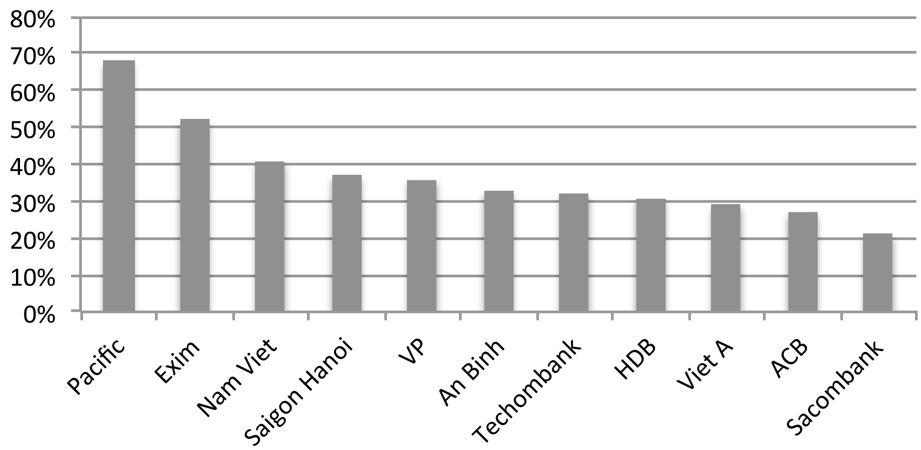
Source: International Monetary Fund, Staff Reports for Article IV Consultations for Vietnam, 1999 to 2012. Note: Data for non-state and SOE loans 2008-2011 not available.

Figures 12 to 15 show flows of bank credit from the banking sector to the private sector. IMF statistics allow a distinction between the state owned banking system and the ‘other’ banking system, which is comprised mostly of joint-stock banks. They also record flows of credit to the state owned system and ‘other sectors’, which includes households and private enterprises. The data are consistent with the three periods discussed above. Bank credit expansion as a percentage of GDP was stable throughout the 1990s. Between 2000 and 2006 flows of bank credit grew by three and a half times, and by two and a half times again between 2006 and 2007. State Owned Commercial Banks (SOCBs) have remained the dominant lenders in the banking system, with loans to ‘other sectors’ showing the highest and most consistent rates of growth. They have also dominated lending to SOEs. Joint Stock Bank lending has also grown, again with the majority of loans to households and private enterprise, who are also the primary recipients of loans during the 2006/7 bubble.

The SBV has played an active role in determining the parameters of credit expansion in Vietnam. The main channel by which state policy has impacted on credit and deposit expansion are moral suasion, reserve requirements, amending regulations for foreign currency deposits and lending requirements. The growth in lending in 1999 was triggered by a administered reductions in lending rates, inspired by Government concern for export orientated and agricultural firms following the Asian crisis. Again in an effort to sustain production and employment the SBV expanded short term credit to SOEs, and reduced bank reserve requirements from ten to seven percent of short term deposits (IMF 1999). According to the IMF the reduction in deposit rates saw a portfolio shift toward foreign currency deposits (IMF 2000). In 2004, this time worried about the expansion of credit growth the government raised reserve requirements with some success (IMF 2004). At the same time an increase in official reserves led to an increase in bank liquidity (IMF 2006). Worried by the growth in bank credit in 2007-2009 the Government imposed limits on bank lending, particularly to large SOEs. However, it is also likely that credit growth slowed because firms cut back on investment in light of a fall in domestic and foreign demand.

The main drivers of credit growth after 2005 appear to have been SOCBs and non-state firms and households. Other bank lending is intimately linked to non-state borrowers, as, to a lesser extent is SOCB lending. Again lending regulations appear to have had some influence on lending patterns. After 1998 SOEs no longer required collateral to borrow from SOCBs. However, non-state firms had to provide security to receive loans up until 2002. From 2002 banks could provide credit to all enterprises on the condition they had been profitable for two years or the enterprise had a feasible project and was financially sound. Nevertheless, banks were still unable to lend to start-ups. Although SOCBs were encouraged to expand lending the loss of state capital remains a capital offence, providing a further brake on bank lending.

A particular problem for the authorities was the impact of the Asian crisis on the banking sector and on firms. Although the crisis was not as destabilising as in other countries a number of firms were dependent on exports and joint ventures with foreign owned firms. SOEs also had social responsibilities, which affected their efficiency and liquidity. They were, for example, expected to maximise employment, as well as take responsibility for employee health care and training. Many firms were as a result unable to meet their obligations to banks in the late 1990s, leading to a dramatic rise in non performing loans (NPLs), which demanded Government intervention. This partly explained the Government's decision to allow



SOEs to borrow without collateral. Of the banks joint stock banks appear to have been hit hardest by the increase in non-performing loans. In 1999 two banks collapsed. Most were dangerously undercapitalised, and it was estimated that between 30 and 40 percent of loans in JSBs were non performing (IMF 1999).

Most JSBs were established by one of the major SOCBs, and as Figure 15 illustrates the majority of their lending was to non-state firms, which tended to be smaller. A number of others developed from 'credit cooperatives', which were established in rural areas to support agricultural SOEs and farmers. However, these, like other JSBs were undercapitalised and lacked expertise and technology (Leung 2009). Many JSBs found themselves lending to firms to support what was essentially speculative behaviour. The 2007 spike in lending to SOEs was partially funded by JSBs (Leung 2009).

Figure 16 illustrates the exposure of JSBs to real estate loans in 2008. The JSB sector has proved problematic for the authorities, particularly rural credit institutions and state conglomerates. In 2007, as in the late 1990s, credit institutions were granted banking licenses to operate in urban areas, where they met the demand for credit from households and firms anxious to participate in the stock market and real estate boom (Leung et al. 2010). Similarly, large SOEs sought to establish banks leading to fears that Vietnam would experience a bout of irresponsible lending (Cheshier and Pincus 2010). Many SOEs also purchased equity in existing JSBs, prompting the authorities to limit equity to holdings to thirty percent per enterprise.

Figure 16: Real Estate Share of Total Loans 2008

Source: Presentation by Fulbright School, HCMC in Hoi An July 9th 2011

Vietnam has four large state owned commercial banks. Tables 4, 5 and 6 depict the lending habits of these banks. The data was collected from bank annual reports and financial reports. As ever in Vietnam such an exercise illustrates the difficulties with data sources. Total loans in 2007 and 2008, for example, exceed total loans by SOCBs in IMF Article IV. Nevertheless, they provide some insight into the development of SOCBs and their role as lenders and financial intermediaries throughout the 2000s.

Table 3: Bank of Investment and Development[50]

	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Lending to Enterprises	100.0%	100.0%	88.5%	83.3%	54.0%	48.0%
Total State	65.0%	52.0%	49.3%	47.0%	37.5%	45.4%
Non-State	32.0%	45.0%	61.0%	50.1%	53.3%	48.7%
Foreign	3.0%	3.0%	3.9%	2.9%	9.2%	5.9%
Individual	0.0%	0.0%	11.5%	15.8%	65.7%	82.7%
other	0.0%	0.0%	1.5%	1.4%	19.4%	25.9%

50. BIDV annual reports for 2005, 2006, 2007, 2008, 2009, 2010, all accessed at http://bidv.com.vn/default.aspx?lang=vi-VN, June 2011

Table 4: Vietcombank[51]

	2004	2005	2006	2007	2008	2009
Lending to Enterprises	88.5%	86.1%	77.3%	77.6%	72.7%	67.7%
Total State	54.8%	41.7%	38.9%	48.3%	46.9%	39.7%
Non-State	11.0%	37.4%	24.6%	26.5%	17.2%	19.9%
Foreign	22.7%	7.1%	13.8%	2.8%	8.5%	8.1%
Individual	11.4%	7.0%	8.5%	9.5%	9.6%	9.7%
Other	0.1%	6.9%	14.2%	13.0%	17.7%	22.6%

Table 5: Vietinbank[52]

	2003	2004	2005	2006	2007	2008
Lending to Enterprises	100.0%	100.0%	86.4%	82.3%	74.0%	76.9%
Total State	46.0%	42.0%	37.7%	30.7%	46.5%	35.6%
Non-State	54.0%	58.0%	47.1%	49.3%	25.5%	39.2%
Foreign	0.0%	0.0%	1.6%	2.3%	2.1%	2.1%
Individual	0.0%	0.0%	13.6%	17.7%	26.0%	23.1%
Other	-	-	-	-	-	-

Each bank is traditionally responsible for particular sectors of the economy deemed important by the state. Agribank, is responsible for agriculture and rural areas; the Bank for Investment and Development (BIDV) is responsible for basic infrastructure, Vietinbank for industry and Vietcombank for trade. As such the four banks were central to the Government's development policy, responsible for policy lending and for taking care of the financial needs of key sectors of the economy. However, over the last decade each of the four banks has adopted more conventional banking operations. Tables 4, 5 and 6 also indicate the changing loan portfolios of banks. The proportion of loans to the state sector is declining, and banks are lending more to 'individuals'. However, it is likely that many customers are equitised SOEs, and have been reclassified by the banks as limited liability or 'non state' companies. Of the four, Agribank remains closest to its roots, lending over half of its total portfolio to farmers and smallholders. Agribank data

51. Vietcombank annual reports for 2005, 2006, 2007, 2008, 2009, 2010. All accessed at http://www.vietcombank.com.vn/en/About%20VCB.htm, June 2011

52. Vietinbank annual reports for 2004, 2005, 2006, 2007, 2008, 2009, accessed at http://investor.vietinbank.vn/FinancialReports.aspx, June 2011

are only available for 2008 and 2009[53]. According to 2009 figures over ninety percent of lending is to households and individuals. Of these around fifty percent are reported as rural farmers. The remainder is to SOEs and private enterprise also concentrated in rural areas of Vietnam. The banks' annual reports also suggest a change in lending policy. The 2009 annual report for Vietcombank, for example, claims it was 'originally established as a specialized bank servicing external economic activities, Vietcombank today has grown into a universal bank with presence in all major cities and provinces throughout the country, as well as branches in Hong Kong and Singapore.' The change in focus of the banks is also illustrated by the claims in a number of reports that the banks are meeting government targets for lending to small and medium sized enterprise. The four SOCBs also directly fund large state infrastructure projects, or purchase bonds from municipalities, State Owned Enterprises or Economic Groups. In this way banks provide the means for the government to fund infrastructure development and industrial investments. These transfers are included in the IMF accounts, although not in official GoV reports.

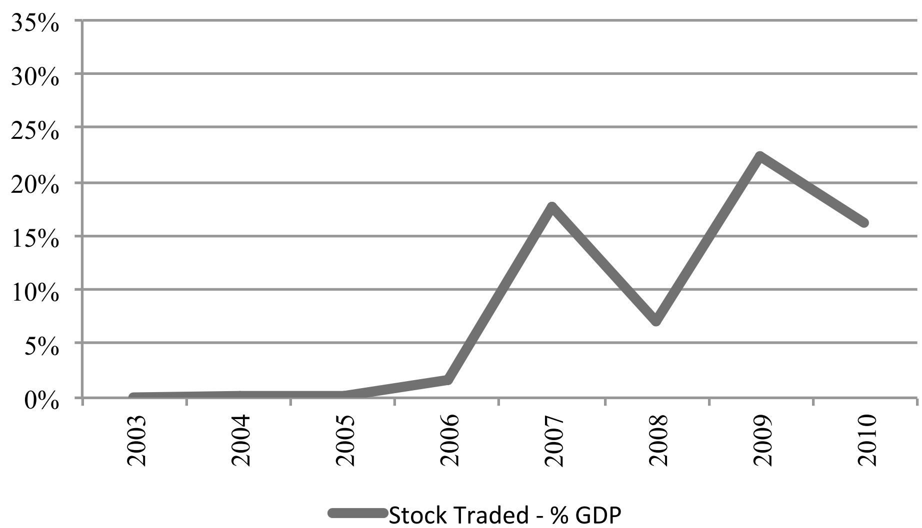
6.3.2. Financial Sector

The stock market as a destination for financial investment took off in 2006/2007. A number of factors contributed to the bubble. Accession to WTO brought with it portfolio flows, which in contributing to rising equity prices proved attractive to domestic investors. The Ho Chi Minh City (HCMC) Stock Market Price Index rose by 144.5 percent in 2006 alone, and by another 51 percent in early 2007. A major contribution was tax incentives to firms willing to list on the stock market by the end of 2006. Limits on foreign ownership were also raised from thirty to forty nine percent in 2005. Most of the new listings took place during the last two months of 2006 as companies tried to benefit from tax incentives that were to expire by year end. Total stock market capitalisation went from USD 0.6 billion (one percent of GDP) in 2005 to a peak of US$ 23 billion (34 percent of GDP) by March 2007. Daily stock trading volumes increased from an average of US$10 million in January 2006 to about USD 70 million in late February and early

53. Accessed at http://www.agribank.com.vn/91/848/thu-vien/bao-cao-tai-chinh.aspx, June 2011

March 2007 (IMF 2007). The sheer volume of interest is evidenced by the nearly four billion USD of mostly foreign money held by investment firms in search of profitable outlets in 2006 and 2007 (IMF 2007). A further attraction was the anticipation of future equitisation of large state owned enterprises and state owned commercial banks. Figure 8 illustrates the impact of foreign funds on the stock market inflation of 2006/7.

Figure 17: Value of Shares Traded (% of GDP)



Source: World Development Indicators

The official stock market was not the only destination for funds. Until late in the decade the informal market for listed shares was believed to be larger than the formal stock market. A large proportion of the credit expansion found its way to the informal market, which included a large unlicensed stock market conducted in coffee shops, and with the use of web based bulletin boards. An estimated one thousand stocks were traded between over half a million investors. The majority of stocks on all four markets are equitised State Owned Enterprises. Smaller JSBs were the main source of credit sued to purchase equities. According to the IMF some banks were lending up to forty percent of their loan portfolios using stocks as collateral (IMF 2007). In response the SBV raised the risk weighting of loans secured by securities from 100 percent to 150 percent, and moved to limit investment by directing banks to reduce this type of lending to no more than three percent of their total loan balances by the end of 2007. The SBV's Decision 03/2007 issued on January 19 contained new regulations on bank capital adequacy, liquidity ratios, and lending and investment limits, which restricted the scope for new bank lending for the purchase of stocks. In particular: (i) credit institutions were not allowed to extend credit to their securities company affiliates nor grant unsecured loans financing investment or trade in securities; and (ii) the risk weight of securities-related loans was raised from 100 to 150 percent. Credit institutions were given one year to fully conform with the new restrictions (IMF 2007).

The Vietnamese bond market has, legally, been in existence since 1992. However, as Table 5 indicates nearly two decades later it remains small, and the secondary market almost non-existent. In that time only 63 firms have issued a total of 152 bonds, and of these large state owned conglomerates and banks dominate. Electricity Vietnam (EVN), Vinashin, Petrovietnam (PVN) and the Bank of Investment and Development (BIDV) issued 28 percent of bonds but mobilized 48 percent of total funds. Table 5 shows that even of these top five two large economic groups, EVN and Vinashin, dominate.

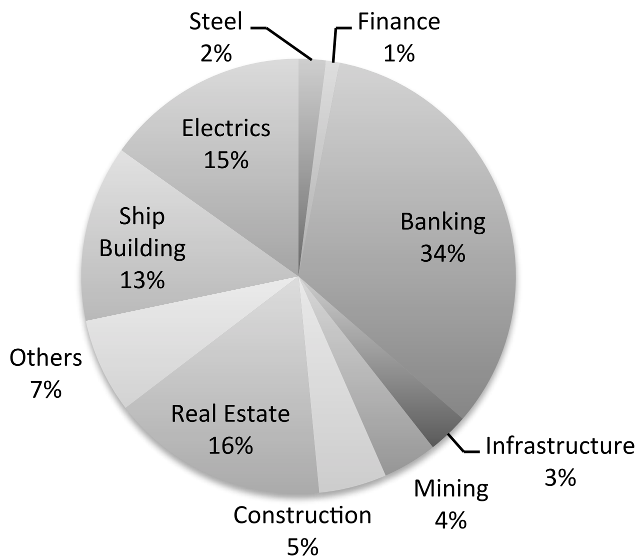
Table 6: Corporate Bonds

Issuer	State Ownership	Listed	Total	Value (Mil USD)
EVN	1	0	15	734.86
Vinashin	1	0	14	660.60
BIDV	1	0	7	472.60
VIC	0	1	5	284.64
PVN	1	0	1	219.07
Sub Total			42	2,371.77
Total			152	4,927.49

Source: Adapted from Vuong and Tran (2010)

Figure 18 indicates that outside of these firms real estate has proved a significant destination for raised funds. Although it cannot be demonstrated conclusively, concerns over SOE investments suggest that other issues may also have gone to fund similar projects. Activities listed in Figure 18 are based on the reported primary activities of firms, not the actual use of funds.

Figure 18: Corporate Bonds by Industry



Source: (Vuong and Tran 2010, p.15)

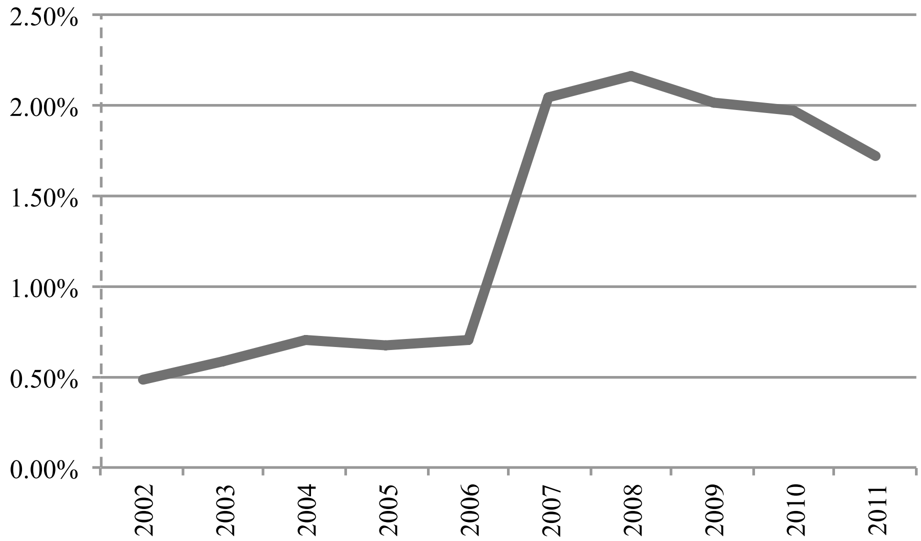
Of those purchasing bonds the majority are large banks and, more recently, insurance companies and pension funds. The identity of those involved in most exchanges suggests that deals are arranged before bonds are issued.

The weakness of the market can ultimately be attributed to the level of Vietnamese development, and to coordination difficulties among those responsible. Although the development of the stock market and the bond market thus far suggest the bond market might be deep enough, Vietnam has struggled to build the required infrastructure to manage a private debt market. Only recently has the government addressed the problem with the proposed Public Debt Law, however, in practise its success would depend on cooperation among a number of agencies, including the Ministry of Finance, the State Security Commission, the Tax Department and the State Bank (Leung 2009).

6.3.3. *Real Estate Investment*

The growth in real estate was accompanied by a rapid expansion of the number of firms whose primary activity was real estate. Figure 20 shows the number of firms recorded in annual enterprise surveys between 2000 and 2008. Figure 19 illustrates the growth in real estate investment as a proportion of GDP.

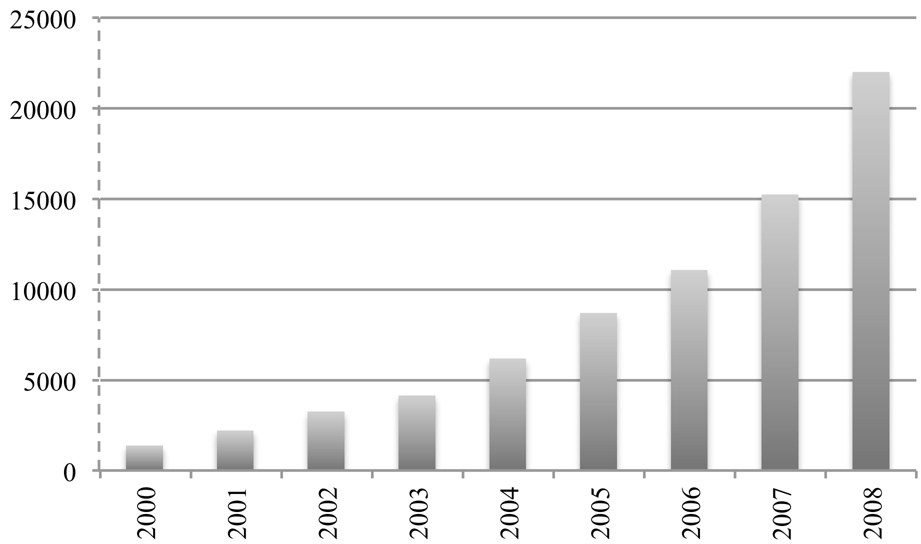
Figure 19: Real Estate Investment (% of GDP)



Source: Gso.gov.vn[54]

54. Data available at: http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=13128

Figure 20: Growth in Real Estate Enterprises



Source: (GSO 2010, Part 06)

Whilst many investors claimed they were meeting increased demand for 'office space' and urban residential areas the real estate sector in Vietnam was undoubtedly the target of much speculation (Harvard Program Vietnam 2008).

6.3.4. The Enterprise Sector

Early reforms had sought to reduce the reliance of state enterprises on the state (Dang Phong, 2004) and separate SOE financing from state budget expenditures. Ideally all enterprises would borrow capital for investments (Le Dang Doanh 1996). Bereford suggests the GoV was too successful, and SOEs suffered from limited access to capital:

> 'The other major source of finance for SOEs came from credit, which, however, provided a progressively lower proportion of their investment. Given generally low profitability, they tended to borrow for working capital rather than for longer-term investments in fixed assets. The structure of interest rates favoured short-term borrowing over long term, partly as a result

> of risk management by banks and partly because interest rate policy was designed to enable SOEs to survive in the market environment. The latter was not, however, designed in a way that enabled technologically backward firms to upgrade their equipment to globally competitive standards'
>
> (Beresford 2004, p. 56)

Beresford goes so far as to argue that, 'because of donor pressure', SOEs were unable to access the credit they required, causing them to cede ground to the private sector and foreign firms (Beresford 2008). Instead, again a result of a donor led strategy, state investment funds were increasingly channelled to infrastructure projects. As a result the SOE sector was reliant on the banking sector and foreign capital. In 1993 SOEs received 55 percent of state investment. By 2000 it had fallen to 14 percent. It is no surprise then, that SOEs began to increasingly rely on self-finance for investments. In terms of SOCB lending, the proportion of credit allocated to SOEs fell from 90 percent in the early 1990s, to 50 percent in 1997 and 40 percent in 2001 (Beresford 2004).

The relationship between the state sector and the banking and government sector can also be estimated. Wolff (1999) calculates the 'financial relations' between SOE, banks and the national budget between 1987 and 1994. He demonstrates that after 1990 the SOE sector transferred more to the budget and banks than it received. The net transfer in 1994 was -9.2% of GDP. Table 7 illustrates the net transfer from the Government budget to the SOE sector between 2000 and 2008. Onlending is typically used to finance large infrastructure projects, and SOEs tend to be the major recipients (IMF 2007). As the table indicates only after 2007 and the increased credit growth did the SOE sector as a whole receive more than it contributed.

Table 7: Net Transfers of SOE Sector to Banks and Budget

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tax	7.0%	10.9%	10.7%	8.7%	7.9%	8.1%	7.4%	7.2%	5.4%
Onlending	2.2%	2.2%	2.4%	2.9%	2.4%	2.7%	2.1%	2.1%	1.8%
Balance	4.7%	8.7%	8.4%	5.8%	5.5%	5.4%	5.3%	5.1%	3.6%
Bank Credit	3.5%	2.0%	1.8%	2.6%	5.2%	4.6%	3.8%	10.1%	5.4%
Net Transfer	-1.2%	-6.6%	-6.5%	-3.2%	-0.2%	-0.8%	-1.4%	5.0%	1.8%

Source: Taxes are reported in the enterprise survey for each year (GSO 2010, Part 06). Onlending is government sanctioned lending through the Development Assistance Fund (DAF) and, after 2005, the Vietnam Development Bank (VDB). The DAF was primarily financed from household savings (via the Postal Savings Postal Company) and Overseas Development Aid (ODA). Onlending and bank credit data are sourced from IMF statistical appendices and Article IV. Own calculations.

Figure 21 provides savings rates for the Government, enterprise and household sectors between 2001 and 2007. The figure illustrates the difficulties inherent in assembling accurate savings data. The private savings rate used in Figure 7 above is a residual after government and RoW savings is subtracted. Unfortunately, accurate estimates of government savings is difficult to establish, largely because until recently the state budget was an official secret, and many expenditures were not published. Government saving in Figure 21 is the sum of government capital expenditure and the government deficit and is the same figure used by the IMF. Like the IMF off balance sheet expenditures are included for some years, so the savings rate differs from estimates using official government figures available from the GSO website[55].

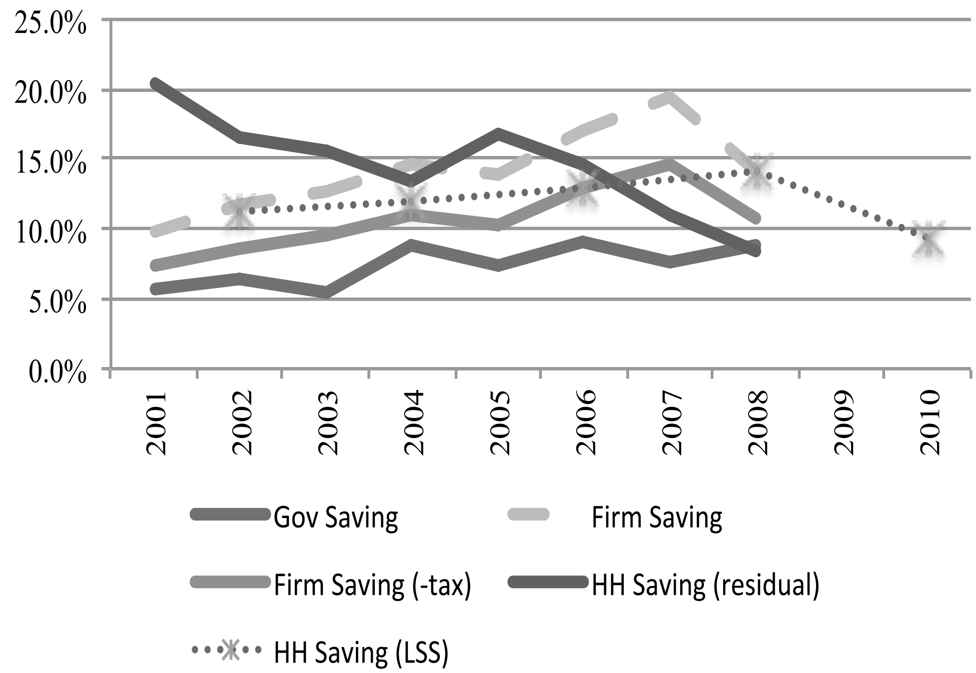
The GSO enterprise census provides data for pre-tax profits for the total firm sector, and also by firm ownership and industrial sector. Total profits represent firm savings, and can, in principle be subtracted from private sector savings to arrive at household savings. Figure 21 shows pre-tax profits, and also an estimate for after tax profits, assuming a tax rate of 25% of profits. Two estimates for household savings are also given. The first,

55. Data available at: http://www.gso.gov.vn/default_en.aspx?tabid=468&idmid=3&ItemID=12981

falling from 20 percent in 2001 to 8% in 2008 is the residual once after-tax profits are subtracted from total private savings. Whilst it is plausible that household savings did fall between 2005 and 2007, particularly as real incomes rose slower than inflation and household consumption remained relatively constant at around 65 percent of GDP the alternative measure derived from biannual household living standards surveys (LSS) up until 2010 suggest household savings only fell after 2008.

The rather high residual savings rate in 2001 and 2002 is probably partly explained by the fact that many small private enterprises were not registered as such, and so were not surveyed and did not report profits. Similarly, the increase in profits after 2005 will partly be explained increased enterprise registration. Although household savings may well have fallen as a proportion of GDP between 2008 and 2010, it is probably safe to assume it was closer to the LSS estimate between 2004 and 2008 than the residual estimate, suggesting it was somewhere between 12% and 15% of GDP.

Figure 21: Firm and Household Savings (% of GDP)



Source: Government Saving: IMF Article IV (Various years) and Statistical Appendix (Various Years) and GSO National Accounts. Firm Saving: GSO Enterprise Survey (GSO 2010, Part 06). GSO Firm Saving - tax: Subtracted 25% of profits, standard corporation tax. Household Saving (residual): Private Sector Saving - Government Saving - Corporate Saving (post-tax). Household Saving (LSS): Biannual Living Standard Surveys 2002-2010: Average income x population - Average expenditure x population. All own calculations.

To further explore the investment and saving behaviour of the enterprise sector it is necessary to derive a figure for investments from the GSO enterprise census. The Government Statistics Office provides a measure of investment that includes Government developmental programmes. As Table 8 shows it is approximately five to six percent points of GDP greater than GFCF. However, it has its advantages as GSO breaks the same figure down by firm ownership and by sector.

Table 8: Measures of Investment as a Percentage of GDP

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GFCF - Flow of funds	21.8%	22.1%	23.4%	21.0%	20.0%	20.6%	21.7%	22.0%	22.9%	21.7%	26.2%	32.8%	29.4%	
GSO Investment	25.8%	28.3%	26.8%	26.1%	24.6%	24.9%	25.8%	25.5%	28.1%	27.0%	31.0%	36.2%	31.2%	25.4%
Ent Census Ch Assets						13.5%	14.2%	15.2%	13.8%	24.8%	49.0%	37.0%	48.9%	

Source: GSO investment figures from http://www.gso.gov.vn/default.aspx?tabid=432&idmid=3, accessed July 2012, GSO Enterprise Survey 2010 Part 06, IFS annual financial statistics for Vietnam[56]

What is clear is that the figure used will have an impact on any calculation of the savings gap faced by the private sector. The first has the advantage of being verified by the IMF. However, it is a residual, and nowhere broken down into, at the very least, household and corporate constituents. The second depicts a similar trend, and, as a proportion of GDP is of a similar magnitude. It is also broken down by the Government Statistics Office into ‘investment by ownership’, and ‘by sector’. A third measure is derived from from the GSO enterprise census, for which results are available for years 2000 - 2009. Unfortunately, the enterprise survey does not have a figure for investment, or gross fixed capital formation. Instead it lists fixed capital and long term investments as a stock for both sectors and ownership classes. Taking changes in long term investment provides a flow, which can be a proxy for investment. However, it is a valuation of long term assets at a given point in the year, and includes financial investments. Although, the quality of the census is improving annually, there are known to be a number of issues with the quality of the data.

The GSO enterprise sector also provides data for firm profits, and taxes and fees paid to government. Both together are pretax profits. According to Kalecki’s equation in a closed

56. Accessed at http://esds80.mcc.ac.uk/wds_ifs/TableViewer/tableView.aspx?ReportId=48867

economy with a balanced budget and no workers' saving the total will be equal to total investment, and will be split between capitalist consumption and spending. Table 9 shows total profits as a percentage of GDP and as a ratio to total fixed assets.

Table 9: Profits as a Proportion of GDP and Profits / Change in assets

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
PreTax Profits	40.5%	40.3%	37.8%	38.4%	41.4%	41.9%	41.2%	38.9%	30.2%
Profits/ ChAssets		2.99	2.67	2.53	2.99	1.69	0.84	1.05	0.62

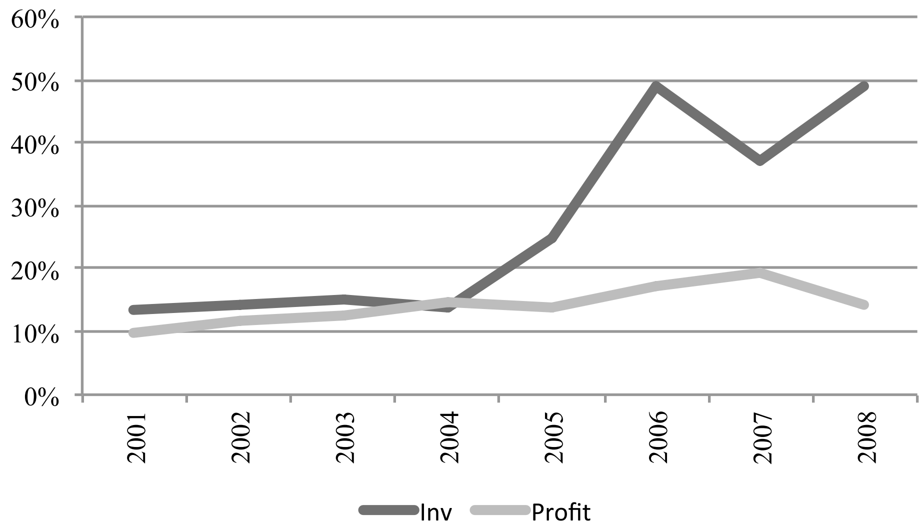
Source: (GSO 2010, Part 06)

Total profits are consistently around 40 percent of GDP, until 2008, which can be attributed to the fall out from the 2007/ 2008 crisis. The reduction in the increase of profits as a proportion of total change in assets (approximately total new investment) can be attributed to the formation and entry of new, particularly small firms, into the economy. As will be demonstrated below profit rates for larger, state firms tend to remain relatively high.

Figure 22 shows profits and investments for the total enterprise sector, and is derived from annual census reports. It has not been possible to access raw enterprise census data as it is not published. A number of books (GSO 2008, 2009, 2010, 2010b) provide aggregated data for ownership classes and sectors.

Profits are pre-tax profits, as they are published. After tax profits, as above, can be estimated to be in the region of 25 percent less. It is difficult to ascertain the impact of taxation, as a significant portion of government tax revenues will constitute demand for the firm sector.

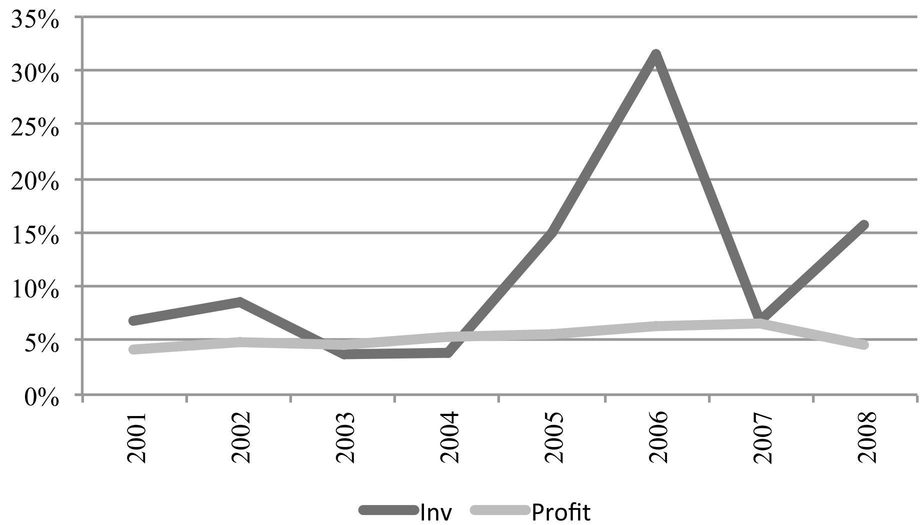
Figure 22: Profits and Investment of Total Enterprise Sector (% of GDP)



Source: GSO 2010, Part 06

Figure 22 is consistent with other data sources; 2005 - 2008 shows a large increase in investment that does not correspond to an increase in profits. Both profits and investment follow a similar trend between 2001 and 2004, which is approximately consistent with Figure 5. Figure 21, above, suggests that the surplus in Figure 7 can possibly be attributed to a greater share of household savings in private savings. This in turn is probably due to the relatively small size of the enterprise sector and that many enterprises were not registered until after 2004.

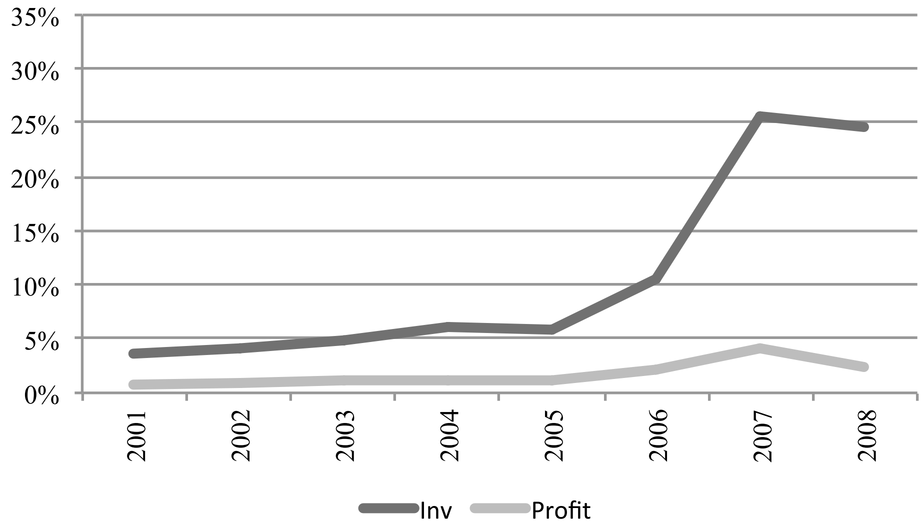
Figure 23: Profits and Investment of State Sector (% of GDP)



Source: GSO 2010, Part 06

Profits as a percentage of GDP for the state sector are consistent at approximately five percent of GDP. The state sector ran a deficit between 2001 and 2003, between 2004 and 2007, and again in 2008. The likely source of the excess financing was the acceleration in the equitisation process in the run up to WTO accession, which was partly financed by foreign capital inflows into the stock market.

Figure 24: Profits and Investment of Non-State Sector (% of GDP)



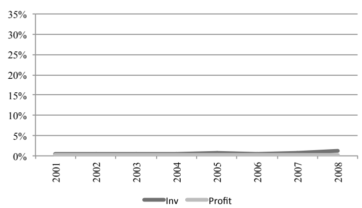
Source: GSO 2010, Part 06

The non-state sector has been in deficit throughout the decade. After 2006 the savings gap widened considerably. Figure 25 enables us to break down the non-state sector further. The first observation is that the breakdown by ownership is consistent with the flow of funds data. Until 2005/6 all sectors with the exception of joint ventures ran only slight deficits. During this period the savings gap was funded by household savings, via the banking system or more informal channels. Most firms relied on retained earnings to finance investments. Recalling Figure 11 credit growth as a proportion of GDP grew at a relatively low level until 2005.

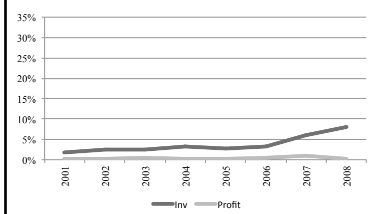
The reforms of 2006/7 appear to have a profound effect on all sectors' levels of investment and savings gap. It is worth remembering that investments are all long term investments, not just increases in fixed assets. The private sector has the smallest increase. Both forms of joint stock company demonstrate an increase in

Figure 25: Savings Gap by Firm Ownership (% of GDP) (Source: GSO, Part 06)

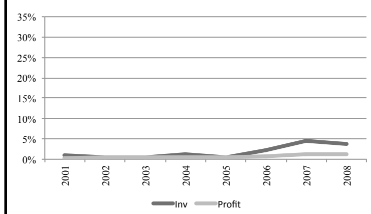
Private Companies



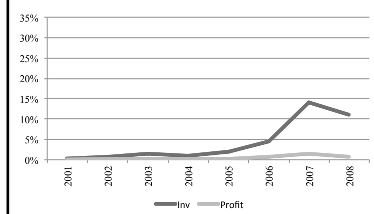
Private Ltd Company



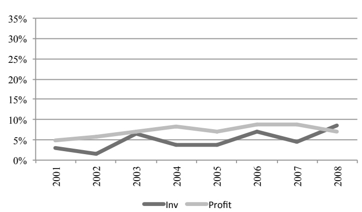
JS with State Capital



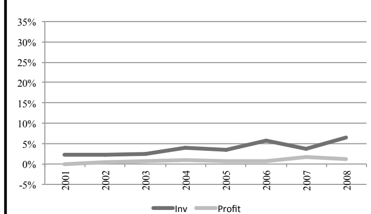
JS without State Capital



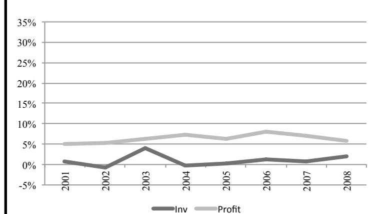
Foreign Sector



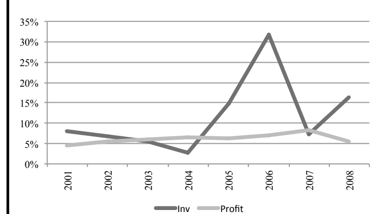
100% Foreign Sector



JV Sector



State/ JV without Oil/ Mining



financing, as does the foreign sector. However, only joint ventures run a surplus. Few sectors show a marked increase in profits, suggesting that increased investments do not translate to profits in other sectors, and that the trade balance is the primary leakage. The private sector, which is composed primarily of small firms, invested the least as a proportion of GDP, despite having by far the largest population.

After 2006/7 there is a large savings gap in most sectors consistent with the changes in financial institutions and foreign flows. Bank credit, equity investments, foreign inflows - direct and indirect - constitute the largest sources of financing.

Table 10 shows the average size of total fixed and long term assets of firms by by ownership between 2000 and 2008. Although all firm sizes show some increase in size (partly attributable to inflation) state and joint stock companies show the largest increase. The increase in size of the state sector is due to a number of factors. Smaller, loss making firms were liquidated or sold off. Larger firms were recapitalised primarily as a result of equitisation. Joint stock companies with less that 50 percent state capital demonstrate the most dramatic growth in average size. This is also a result of equitisation and improved access to capital. Many firms were large state owned companies that were recategorised following the reduction of the state share to under fifty percent.

Table 10: Average size of ownership types (Bil VND)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average	9.7	9.2	8.8	9.0	8.1	8.4	10.9	11.9	12.5
State	39.9	49.1	57.6	68.5	78.3	119.1	214.3	249.4	336.7
Non-state enterprises	1.0	1.2	1.3	1.6	1.8	1.9	2.4	4.0	4.9
Private	0.3	0.4	0.5	0.6	0.6	0.7	0.8	0.9	1.2
Private Ltd	1.5	1.5	1.6	1.8	1.9	1.9	2.1	2.6	3.1
JS with State Cap	9.7	15.7	17.8	18.4	26.0	22.9	34.1	61.0	84.5
JS without State cap	7.4	4.3	3.6	4.6	3.7	4.0	5.8	11.9	13.0
100% foreign capital	52.6	43.3	43.8	44.9	48.0	49.5	59.2	60.2	73.1
JV	153.5	148.1	136.9	163.9	152.7	151.9	158.8	157.3	175.7

Source: GSO 2010, Part 06

Table 11 uses liability data from the GSO enterprise survey. Liabilities include more than bank debt, and so don't correlate with financial data used above. Between 2006 and 2007 both joint stock sectors, as expected, experienced increase in equity as a proportion of total capital. Private and collective firms conversely experience an increase in liabilities, which may indicate increased access to bank credit. The state sector also experiences an increase in equity, also consistent with equitisation.

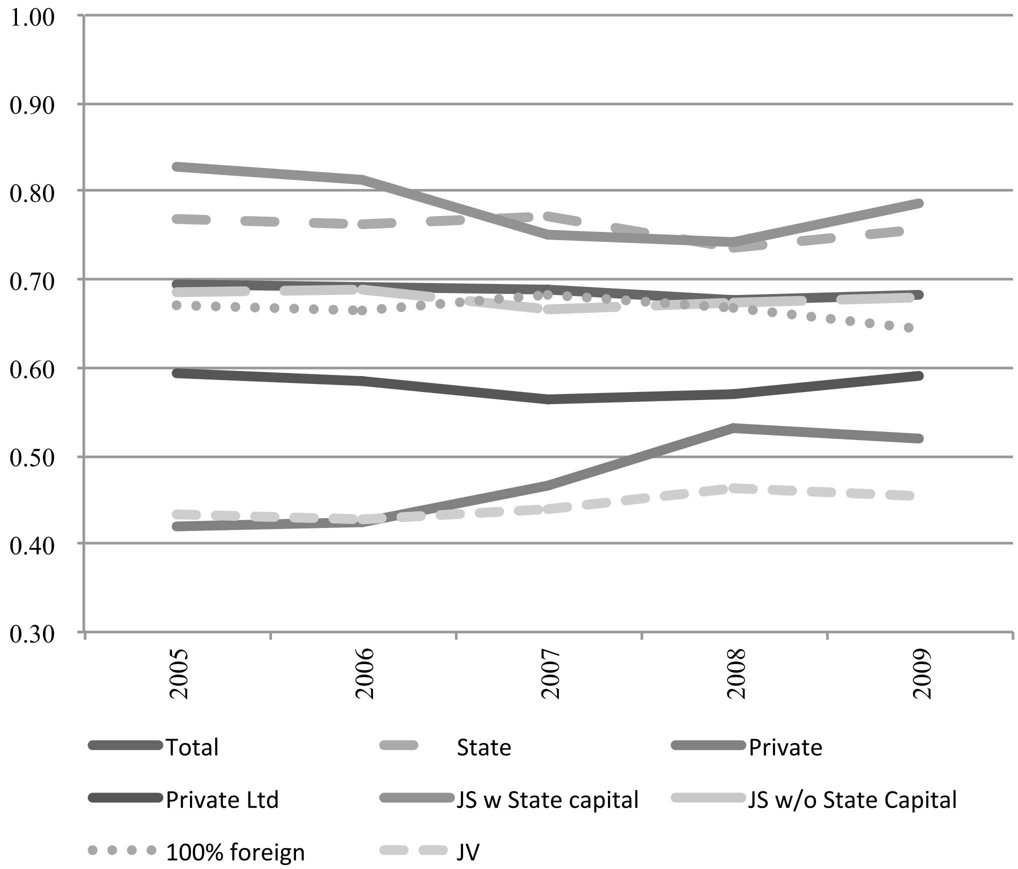
Table 11: Liabilities/ Total Capital

	2005	**2006**	**2007**	**2008**	**2009**
Total	**0.70**	**0.69**	**0.69**	**0.68**	**0.68**
State	**0.77**	**0.76**	**0.77**	**0.74**	**0.76**
State Central	0.80	0.79	0.80	0.76	0.78
State Local	0.54	0.53	0.55	0.56	0.50
Non State	**0.64**	**0.64**	**0.63**	**0.64**	**0.66**
Collective	0.57	0.59	0.64	0.52	0.60
Private	0.42	0.43	0.46	0.53	0.52
Private Ltd	0.59	0.58	0.56	0.57	0.59
JS w State capital	0.83	0.81	0.75	0.74	0.79
JS w/o State Capital	0.69	0.69	0.67	0.67	0.68
Foreign	**0.57**	**0.57**	**0.60**	**0.60**	**0.59**
100% foreign	0.67	0.66	0.68	0.67	0.64
JV	0.43	0.43	0.44	0.46	0.45

Source: (GSO 2008, pp. 208-212) and (GSO 2010b, pp. 304-306)

The following graphs tell the same story graphically. The greatest changes in the debt equity ratio over the five year period are, in the 'private' firm, and the 'joint stock with state capital' firm. The former apparently benefits from an increased access to credit, which probably corresponds to developments in the banking sector. The latter, is the likely outcome of the equitisation process. Otherwise, the debt to equity ratio remains approximately constant.

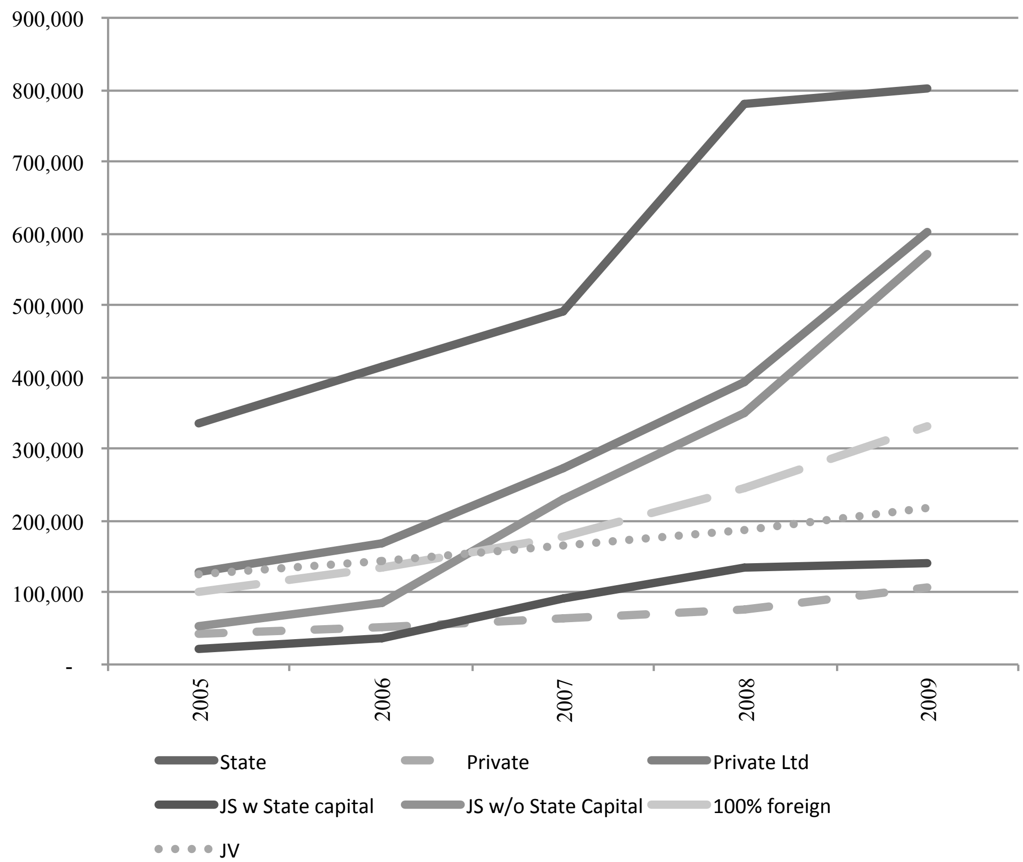
Figure 26: Liability to Equity Ratio



Source: (GSO 2008, pp. 208-212) and (GSO 2010b, pp. 304-306)

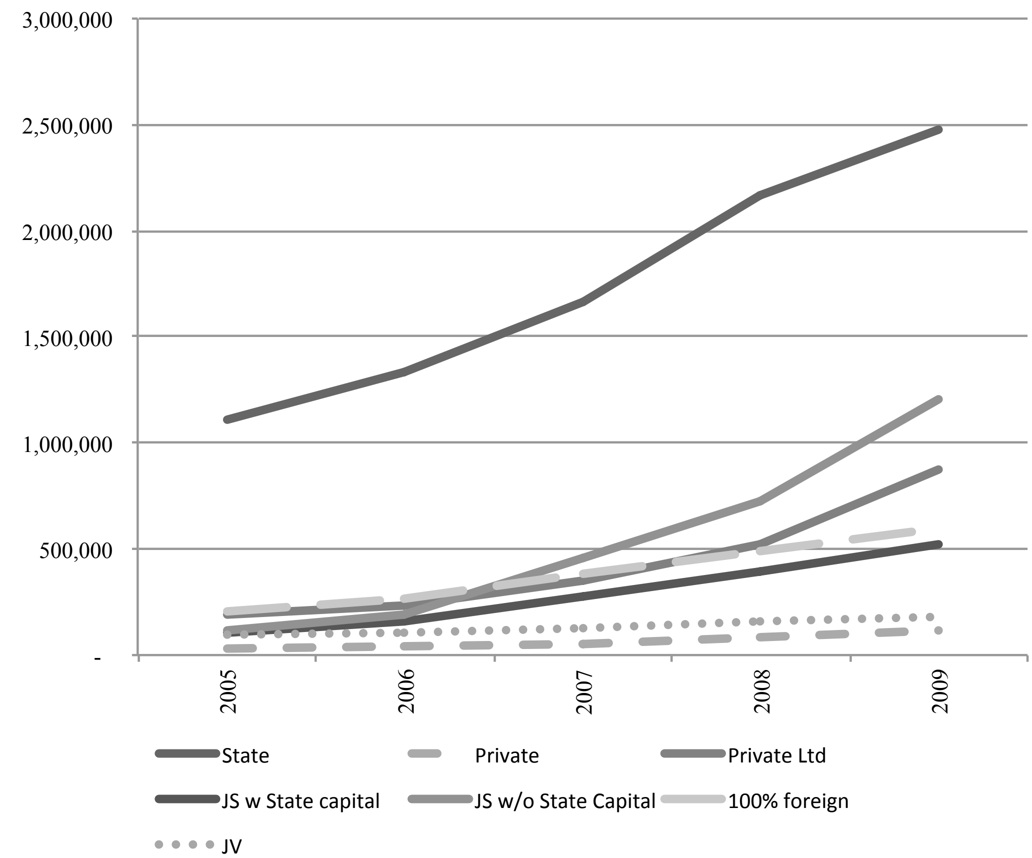
Figure 27 shows changes in equity in absolute terms over the five year period. It must be remembered the increases also represent equity in new firms, rather than changes in the behaviour of existing firms. Nevertheless, state firms, private limited liability companies and joint stock companies without state capital show the greatest rise. This both represents the equitisation process and increasing ease with which to establish enterprises and seek capital.

Figure 27: Total Equity by Sector (Bil VND)



Source: (GSO 2008, pp. 208-212) and (GSO 2010b, pp. 304-306)

Figure 28: Total Liabilities by Sector (Bil VND)



Source: (GSO 2008, pp. 208-212) and (GSO 2010b, pp. 304-306)

The final graph shows the increase in total liabilities. Again the state shows the greatest absolute increase, as firms that are required to remain majority state owned have less access to equity and must rely on debt finance.

Table 12 provides a rough measure of the ability of firms to cover their liabilities with current assets (assets that can be liquidated within one year). State firms are have a significantly lower ratio, particularly when compared to the smaller categories of firm (private and collective firms).

Table 12: Current Assets/ Total Liabilities

	2005	2006	2007	2008	2009
Total	**0.93**	**0.83**	**0.90**	**0.86**	**0.87**
State	**0.86**	**0.71**	**0.77**	**0.74**	**0.67**
State Central	0.85	0.69	0.75	0.72	0.65
State Local	1.00	0.96	1.02	0.96	1.00
Non State	**1.13**	**1.08**	**1.07**	**1.01**	**1.06**
Collective	1.17	1.14	1.06	1.20	1.11
Private	1.59	1.58	1.46	1.25	1.39
Private Ltd	1.15	1.16	1.21	1.14	1.18
JS w State capital	0.97	0.93	0.98	0.96	0.92
JS w/o State Capital	1.10	1.01	0.96	0.91	0.99
Foreign	**0.86**	**0.85**	**0.91**	**0.87**	**0.82**
100% foreign	0.80	0.77	0.83	0.81	0.77
JV	0.97	1.04	1.14	1.06	1.00

Source: (GSO 2008, pp. 208-212) and (GSO 2010b, pp. 304-306)

Table 13: Share of Total Revenues

	2000	2001	2002	2003	2004	2005	2006	2007	2008
State	54.9%	51.5%	51.4%	46.9%	41.5%	38.7%	36.2%	31.6%	25.4%
Collective	1.2%	1.1%	0.9%	0.9%	0.7%	0.8%	0.7%	0.7%	0.8%
Private	8.8%	9.4%	7.6%	7.2%	7.8%	7.8%	8.0%	7.3%	7.3%
Private LL	13.1%	14.8%	16.9%	18.7%	20.5%	20.1%	21.0%	22.9%	26.8%
JS w state cap	1.3%	2.4%	2.5%	3.0%	3.6%	4.8%	5.1%	5.8%	6.3%
JS wo state cap	0.8%	1.6%	2.0%	3.0%	4.2%	5.3%	6.8%	10.4%	14.7%
100% Foreign	7.3%	7.8%	8.1%	9.1%	10.8%	10.9%	12.3%	12.4%	11.3%
JV	12.7%	11.5%	10.6%	11.2%	11.0%	11.7%	9.8%	8.8%	7.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: GSO 2007, 2008, 2009, 2010

Table 14: Average Profit Margins by Ownership Type

	2000	2001	2002	2003	2004	2005	2006	2007	2008
State	4.0%	4.2%	4.2%	4.2%	5.3%	5.4%	6.1%	6.8%	5.2%
Non-State	1.0%	1.3%	1.5%	1.5%	1.2%	1.2%	1.7%	2.8%	1.2%
Private	1.1%	0.9%	1.1%	1.0%	1.0%	0.8%	0.8%	0.9%	0.6%
Private LL	0.2%	0.7%	0.7%	0.9%	0.6%	0.4%	0.7%	1.4%	0.2%
JS w state cap	5.4%	6.2%	6.6%	5.1%	4.6%	3.9%	4.8%	6.8%	5.4%
JS wo state cap	2.9%	1.9%	2.5%	2.4%	1.7%	2.3%	3.5%	4.9%	1.6%
100% Foreign	-0.3%	-0.4%	2.7%	2.9%	3.7%	2.6%	2.4%	4.5%	2.9%
JV	21.2%	22.1%	22.0%	24.1%	26.8%	20.4%	29.0%	25.3%	22.5%

Source: GSO 2010, Part 06

Table 13 shows the falling share of the state sector in total revenues. Other than the collective sector and private sector all other ownership categories have increased their share. Table 14 shows profit margins (profits as proportion of annual revenues). Profit margins give an indication of the sector's ability to finance investments from retained earnings and its share of total investments (recalling the Kaleckian equation). Despite the increase in revenue share of the private limited liability sector and JS without state capital sector compared to the state sector profit margins are relatively low.

Table 15: Some Indicators for Non-State Firms by Size (Employees)[57]

	No. Employees									
No. Firms	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	84,003	17,884	26,285	30,849	7,079	743	628	369	161	5
2005	105,167	23,034	34,394	37,228	8,254	882	716	450	203	6
2006	123,392	16,656	57,722	37,503	8,977	1,017	742	526	238	11
2007	147,316	34,658	50,668	48,533	10,549	1,178	870	558	290	12

% Firms by Size	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	100%	21%	31%	37%	8%	1%	1%	0%	0%	0%
2005	100%	22%	33%	35%	8%	1%	1%	0%	0%	0%
2006	100%	13%	47%	30%	7%	1%	1%	0%	0%	0%
2007	100%	24%	34%	33%	7%	1%	1%	0%	0%	0%

Net New Firms	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	21,164	24.3%	38.3%	30.1%	5.6%	0.7%	0.4%	0.4%	0.2%	0.0%
2006	18,225	-35.0%	128.0 %	1.5%	4.0%	0.7%	0.1%	0.4%	0.2%	0.0%
2007	23,924	75.2%	-29.5%	46.1%	6.6%	0.7%	0.5%	0.1%	0.2%	0.0%

Ave capital (Bil VND)	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	5.90	0.95	1.93	4.06	15.65	45.43	76.82	163.54	300.30	263.00
2005	6.64	1.34	2.14	4.56	17.19	46.04	86.07	153.16	538.11	347.67
2006	7.99	1.70	2.36	5.40	21.73	53.70	68.23	222.64	836.97	290.64
2007	12.38	2.01	3.76	7.80	31.57	86.32	158.09	254.19	1385.78	5732.01

Ave Profit (Bil VND)	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	0.10	0.00	-0.03	0.04	0.35	1.14	1.90	4.04	10.17	3.60
2005	0.10	0.00	0.00	0.04	0.25	0.82	1.78	4.40	13.79	17.00
2006	0.16	0.02	0.00	0.05	0.52	1.36	2.53	7.23	23.26	27.82

57. 'Net New Firms Total' is the total number of firms. The remaining figures are the percentage year on year change in the number of firms of different sizes.

2007	0.32	0.02	0.02	0.11	1.02	3.12	6.61	11.16	40.14	164.16

Profit/ Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	0.02	0.00	-0.02	0.01	0.02	0.03	0.02	0.02	0.03	0.01
2005	0.01	0.00	0.00	0.01	0.01	0.02	0.02	0.03	0.03	0.05
2006	0.02	0.01	0.00	0.01	0.02	0.03	0.04	0.03	0.03	0.10
2007	0.03	0.01	0.00	0.01	0.03	0.04	0.04	0.04	0.03	0.03

Revenue/ Employee	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	0.26	0.54	0.51	0.35	0.24	0.17	0.18	0.15	0.14	0.02
2005	0.29	0.58	0.51	0.39	0.26	0.22	0.20	0.17	0.18	0.05
2006	0.34	0.89	0.59	0.45	0.30	0.23	0.25	0.19	0.23	0.05
2007	0.43	0.82	0.65	0.57	0.41	0.32	0.32	0.24	0.28	0.10

Profit/ Employee	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.00
2005	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.00
2006	0.01	0.01	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.00
2007	0.01	0.01	0.00	0.01	0.01	0.01	0.02	0.02	0.02	0.02

Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	0.13	0.40	0.11	0.12	0.10	0.01	0.12	-0.06	0.79	0.32
2006	0.20	0.27	0.10	0.18	0.26	0.17	-0.21	0.45	0.56	-0.16
2007	0.55	0.18	0.60	0.44	0.45	0.61	1.32	0.14	0.66	18.72

Ch Profit	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	-	-	-	0.11	-0.28	-0.28	-0.06	0.09	0.36	3.72
2006	0.62	5.47	-1.76	0.15	1.05	0.66	0.42	0.64	0.69	0.64
2007	0.98	-0.16	4.95	1.28	0.99	1.30	1.61	0.54	0.73	4.90

Ch Profit/ Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	-	-	-	-0.07	-3.80	-21.93	-1.51	-2.43	-0.55	10.56
2006	2.05	19.29	-18.76	-0.19	2.99	2.98	-3.01	0.42	0.24	-4.88

2007	0.78	-1.86	7.28	1.87	1.17	1.14	0.23	2.84	0.11	-0.74

Ave Rev	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	6.67	0.58	2.49	6.13	20.91	39.26	67.06	98.10	241.06	174.40
2005	7.18	0.69	2.42	6.82	22.17	51.65	75.03	112.17	329.37	372.83
2006	8.26	2.00	2.66	8.12	26.69	54.46	92.66	122.79	401.82	359.00
2007	10.40	1.54	3.31	10.09	36.69	75.27	119.58	164.12	489.58	693.77

Ch in Rev	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	0.08	0.19	-0.03	0.11	0.06	0.32	0.12	0.14	0.37	1.14
2006	0.15	1.91	0.10	0.19	0.20	0.05	0.23	0.09	0.22	-0.04
2007	0.26	-0.23	0.24	0.24	0.37	0.38	0.29	0.34	0.22	0.93

ICOR (Ch Rev/ Ch Capital)	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	1.64	2.15	-4.31	1.09	1.64	0.04	1.01	-0.44	2.16	0.28
2006	1.35	0.14	1.02	0.96	1.29	3.05	-0.88	4.79	2.52	4.42
2007	2.11	-0.80	2.45	1.83	1.21	1.59	4.53	0.42	3.00	20.08

ICOR (Ch. Profits/ Ch Capital)	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	-	-	-	1.07	-0.36	-0.05	-1.97	-0.70	2.22	0.09
2006	0.33	0.05	-0.06	1.23	0.25	0.25	-0.50	0.71	0.81	-0.26
2007	0.56	-1.16	0.12	0.35	0.46	0.47	0.82	0.26	0.90	3.82

Profit/ Inv	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	0.05	0.01	-0.01	0.03	0.07	0.10	0.10	0.23	0.05	0.13
2006	0.07	-0.13	0.00	0.05	0.09	0.10	-0.17	0.08	0.06	0.28
2007	0.06	0.01	0.02	0.03	0.08	0.08	0.07	0.25	0.06	0.03

Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										

2005	203,048	13,760	23,108	44,585	31,116	6,858	13,386	8,576	60,888	771
2006	287,574	(2,526)	62,237	32,488	53,119	13,999	(11,004)	48,186	89,963	1,111
2007	837,138	41,324	54,805	176,007	138,026	47,072	86,913	24,729	202,676	65,587

Ave Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	2	1	1	1	4	8	19	19	300	129
2006	2	0	1	1	6	14	-15	92	378	101
2007	6	1	1	4	13	40	100	44	699	5466

Ave Ch Capital/ Av Ch Profits	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005				10	-14	-27	-305	210	842	35
2006	4	0	-1	6	6	21	-36	143	550	159
2007	6	-8	0	3	13	31	62	81	964	1115

Source: GSO 2007 and 2008, own calculations

The data in Table 15 and Table 16 is derived from GSO 2008 and GSO 2007. Unfortunately, whilst enterprise statistics are provided for non-state and state firms by size of employees they are not broken down further, so it is impossible, for example, to know how many large non-state firms possess state capital.

After 2004 there were approximately 20,000 new firms (net) per year. There is no data for the number of firms that ceased trading. The vast majority of firms employed fewer than 50 people, with only around three percent employing more than 200 people. It is likely that many of these firms were equitised state firms. There also appears to have been some growth in firms from the 0-5 employee category to the 5-10 employee category between 2006 and 2007. There appears to have been little growth in the number of large firms. The average capital per firm is small compared to state firms, although it increases over time even when taking inflation into account. Larger firms report greater profits in absolute terms, but when stated as a proportion of available capital (unfortunately, total long term capital was not available as a measure) or per employee there was no discernible difference. Revenues per employee and the 'ICOR' measures provide some indication of efficiency. In terms of revenues per employee smaller firms appear to be the most efficient. However, the two ICOR measures suggest larger firms make better use of incremental increases in capital. In absolute terms larger firms also have larger increases in available capital year on year. The average change in capital/ average change in profits suggests that larger firms are better able to leverage increases in savings. Moreover, non-state firms appear to extract greater leverage than state firms.

Table 16: Some Indicators for State Firms by Size (Employees)

No. Employees

No. Firms	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	4,597	4	29	720	1,688	518	609	575	421	33
2005	4,086	10	32	679	1,507	447	535	449	387	40
2006	3,720	19	27	658	1,362	398	457	399	359	41
2007	3,494	10	43	631	1,251	405	438	357	322	37

No. Firms	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	100%	0%	1%	16%	37%	11%	13%	13%	9%	1%
2005	100%	0%	1%	17%	37%	11%	13%	11%	9%	1%
2006	100%	1%	1%	18%	37%	11%	12%	11%	10%	1%
2007	100%	0%	1%	18%	36%	12%	13%	10%	9%	1%

Net New Firms	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	(511)	-1.2%	-0.6%	8.0%	35.4%	13.9%	14.5%	24.7%	6.7%	-1.4%
2006	(366)	-2.5%	1.4%	5.7%	39.6%	13.4%	21.3%	13.7%	7.7%	-0.3%
2007	(226)	4.0%	-7.1%	11.9%	49.1%	-3.1%	8.4%	18.6%	16.4%	1.8%

Ave capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	264.73	2.00	2.41	19.01	61.00	80.94	122.14	199.56	426.01	20903.09
2005	353.63	5.00	9.91	18.96	94.26	114.50	158.16	264.01	536.62	20691.33
2006	475.32	5.53	56.70	28.64	129.33	179.64	227.64	305.46	724.91	24729.98

2007	626.00	22.86	35.75	33.68	148.06	347.83	249.94	371.04	1113.57	33449.21

Average Profit	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	8.33	0.00	0.00	0.98	0.51	1.89	3.08	3.41	29.89	585.48
2005	11.36	-0.10	0.66	0.76	2.75	2.96	3.92	4.62	42.81	491.60
2006	16.74	-0.16	0.26	1.03	4.79	3.88	3.15	6.42	62.23	663.10
2007	21.83	-0.04	-0.07	1.65	6.70	20.14	9.61	13.23	58.69	834.08

Profit/ Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	0.03	0.00	0.00	0.05	0.01	0.02	0.03	0.02	0.07	0.03
2005	0.03	-0.02	0.07	0.04	0.03	0.03	0.02	0.02	0.08	0.02
2006	0.04	-0.03	0.00	0.04	0.04	0.02	0.01	0.02	0.09	0.03
2007	0.03	0.00	0.00	0.05	0.05	0.06	0.04	0.04	0.05	0.02

Revenue/ Employee	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	0.32	2.15	0.18	0.52	0.67	0.36	0.37	0.27	0.25	0.31
2005	0.42	0.19	0.39	0.60	0.85	0.50	0.47	0.35	0.33	0.41
2006	0.52	0.80	5.92	0.60	1.21	0.69	0.61	0.36	0.40	0.51
2007	0.64	0.37	0.27	0.76	0.89	1.83	0.84	0.45	0.46	0.58

Profit/ Employee	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	0.02	0.00	0.00	0.03	0.00	0.01	0.01	0.00	0.02	0.04
2005	0.02	-0.03	0.09	0.03	0.02	0.01	0.01	0.01	0.02	0.04
2006	0.03	-0.06	0.04	0.03	0.04	0.02	0.01	0.01	0.03	0.06
2007	0.04	-0.01	-0.01	0.06	0.06	0.08	0.02	0.02	0.03	0.07

Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	0.34	1.50	3.10	0.00	0.55	0.41	0.29	0.32	0.26	-0.01
2006	0.34	0.11	4.72	0.51	0.37	0.57	0.44	0.16	0.35	0.20
2007	0.32	3.14	-0.37	0.18	0.14	0.94	0.10	0.21	0.54	0.35

Ch Profit	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	-	-	-	-0.22	4.35	0.56	0.27	0.36	0.43	-0.16
2006	0.47	0.58	-0.60	0.36	0.74	0.31	-0.20	0.39	0.45	0.35

2007	0.30	-0.75	-1.27	0.59	0.40	4.19	2.06	1.06	-0.06	0.26

Ch Profit/ Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	-	-	-	79.63	6.97	0.36	-0.07	0.10	0.67	14.83
2006	0.38	4.50	-1.13	-0.30	1.00	-0.46	-1.45	1.48	0.29	0.79
2007	-0.04	-1.24	2.43	2.37	1.75	3.48	19.98	3.94	-1.11	-0.27

Ave Rev	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	156.95	6.00	0.31	14.97	73.89	87.29	140.06	183.14	497.46	4263.85
2005	209.18	-0.40	1.78	16.71	94.13	122.06	179.16	247.82	641.18	4791.23
2006	268.11	1.11	41.33	16.99	135.88	168.66	235.38	252.39	760.70	6134.34
2007	321.83	0.42	0.93	21.06	98.12	446.53	323.15	313.81	870.28	7398.61

Ch in Rev	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	0.33	-1.07	4.74	0.12	0.27	0.40	0.28	0.35	0.29	0.12
2006	0.28	-3.76	22.20	0.02	0.44	0.38	0.31	0.02	0.19	0.28
2007	0.20	-0.62	-0.98	0.24	-0.28	1.65	0.37	0.24	0.14	0.21

ICOR (Ch Rev/ Ch Capital)	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	1.01	-1.41	0.65	-0.02	1.99	1.04	1.06	0.91	0.90	-0.08
2006	1.22	-0.03	0.21	29.70	0.84	1.49	1.40	8.52	1.88	0.70
2007	1.58	-5.06	0.38	0.74	-0.52	0.57	0.26	0.88	3.72	1.71

ICOR (Ch. Profits Ch Capital)	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	-	-	-	0.01	0.13	0.74	1.08	0.91	0.60	0.06
2006	0.73	0.18	-7.81	1.42	0.50	1.84	-2.22	0.40	0.77	0.56
2007	1.04	-4.20	0.29	0.30	0.36	0.22	0.05	0.20	-9.41	1.37

Profit/ Inv	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	0.20	-0.02	0.09	-0.63	0.11	0.14	0.21	0.55	0.58	0.14
2006	0.19	-0.05	0.01	0.11	0.19	0.08	0.07	0.77	0.43	0.15
2007	0.18	0.00	-0.47	0.43	0.92	0.12	0.77	0.45	0.19	0.14

Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	228,003	42	247	(815)	39,075	9,257	10,231	3,794	28,322	137,851
2006	323,257	55	1,214	5,967	34,104	20,315	19,415	3,341	52,569	186,276
2007	419,036	124	6	2,412	9,075	69,374	5,442	10,583	98,328	223,692

Ave Ch Capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	56	4	8	-1	26	21	19	8	73	3446
2006	87	3	45	9	25	51	42	8	146	4543
2007	120	12	0	4	7	171	12	30	305	6046

Ave Ch Capital/ Av Ch Profits	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005				5	6	37	70	24	169	-21492
2006	183	5	-74	25	34	165	-215	21	323	13023
2007	395	-17	0	6	18	41	6	28	-5362	23446

Source: GSO 2007, 2008, own calculations

There are far fewer state firms, and the number of firms falls every year as a result of the rationalisation of the state sector. A large proportion of state firms employ more than 200 people. Table 17 illustrates the differences between state and non-state firms. A negative number indicates a greater value for the state sector. The Table demonstrates that state firms are, on average, much larger than non-state firms. However, they don't appear to be more efficient. Although they generate more revenue per employee, the two ICOR measures suggest that the non-state

Table 17: Difference Between Non-State and State Firms ((-) indicates greater value for state sector).

Ave capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	-258.83	-1.05	-0.49	-14.95	-45.35	-35.51	-45.32	-36.02	-125.71	-20640.09
2005	-346.99	-3.66	-7.76	-14.40	-77.06	-68.46	-72.09	-110.85	1.49	-20343.66
2006	-467.33	-3.83	-54.35	-23.24	-107.60	-125.95	-159.41	-82.82	112.07	-24439.34
2007	-613.62	-20.85	-31.99	-25.89	-116.49	-261.51	-91.85	-116.86	272.21	-27717.20

Ave capital	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	-8.23	0.00	-0.03	-0.94	-0.17	-0.75	-1.18	0.63	-19.72	-581.88
2005	-11.26	0.10	-0.66	-0.72	-2.50	-2.15	-2.14	-0.22	-29.02	-474.60
2006	-16.58	0.18	-0.26	-0.99	-4.28	-2.52	-0.62	0.81	-38.97	-635.28
2007	-21.51	0.06	0.09	-1.54	-5.68	-17.02	-3.01	-2.06	-18.55	-669.92

Revenue/ Employee	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	-0.06	-1.61	0.33	-0.17	-0.43	-0.20	-0.19	-0.12	-0.11	-0.29
2005	-0.13	0.38	0.12	-0.21	-0.60	-0.29	-0.27	-0.19	-0.15	-0.36
2006	-0.19	0.09	-5.34	-0.16	-0.91	-0.46	-0.36	-0.18	-0.17	-0.46
2007	-0.21	0.45	0.38	-0.19	-0.48	-1.51	-0.52	-0.21	-0.18	-0.48

Ave Rev	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004	-150.28	-5.42	2.18	-8.84	-52.98	-48.04	-73.00	-85.04	-256.40	-4089.45
2005	-202.00	1.09	0.64	-9.88	-71.95	-70.41	-104.13	-135.65	-311.81	-4418.39
2006	-259.85	0.90	-38.68	-8.88	-109.18	-114.20	-142.72	-129.60	-358.88	-5775.34
2007	-311.43	1.12	2.38	-10.97	-61.43	-371.26	-203.56	-149.70	-380.70	-6704.84

ICOR (Ch Rev/ Ch Capital)	**Total**	**0-5**	**5-9**	**10-49**	**50-199**	**200-299**	**300-499**	**500-999**	**1000-4999**	**5000+**
2004										
2005	0.63	3.56	-4.97	1.11	-0.35	-1.00	-0.04	-1.36	1.26	0.36
2006	0.13	0.17	0.81	-28.73	0.45	1.56	-2.28	-3.73	0.64	3.72
2007	0.53	4.26	2.08	1.09	1.73	1.02	4.27	-0.46	-0.72	18.37

ICOR (Ch. Profits Ch Capital)	Total	0-5	5-9	10-49	50-199	200-299	300-499	500-999	1000-4999	5000+
2004										
2005				1.06	-0.48	-0.78	-3.05	-1.61	1.62	0.02
2006	-0.40	-0.13	7.75	-0.19	-0.25	-1.59	1.73	0.30	0.03	-0.82
2007	-0.48	3.04	-0.17	0.05	0.10	0.24	0.77	0.06	10.32	2.45

Source: GSO 2007, 2008, own calculations

6.4. The Private Sector

A number of surveys carried out by the Government Statistics Office, the World Bank, The Vietnam Chamber of Commerce and others suggest SMEs in Vietnam share a number of characteristics. First, although the number of SMEs is increasing rapidly many new firms are actually existing household enterprises and other small firms that hitherto had chosen not to formally register (Malesky and Taussig 2009). Consequently, Table 17 may not actually accurately depict the number of *new* SMEs. Second, although actual figures are difficult to come by, the rate of attrition is thought to be high. Individual firms tend to remain small. Although total assets for the sector are rising as a proportion of GDP, per firm the number remains small.

The majority of SMEs are in the retail or service sectors, and those in the manufacturing sector tend to be low skilled, with limited technological capabilities. Surveys of smaller private companies conclude that the majority of firms face difficulties accessing bank credit, and tend to rely, instead, on friends and family (Le Van Su, 2005). In the mid-1990s half of SMEs surveyed did not keep bank accounts, and three quarters did not use banks to settle payments, opting instead for informal credit markets. As a result in 1995 there was four times more cash in circulation in Vietnam than in other ASEAN countries (Nguyen Xuan Nghia, 2005). A 2003 survey by the International Finance Corporation (IFC) found 61 percent of start up funds were personal savings, and a further nine percent borrowed from friends and family (Tenev et. al. 2003). The same study confirmed SOEs tend to dominate borrowing from SOEs, and private firms borrow more from private Joint Stock Banks. Private firms are also likely to depend on a more varied source of funds than SOEs. Similarly, Nguyen et. al find that the majority of SMEs rely on informal credit sources (Nguyen et al. 2009).

A recent study of bank lending by one unnamed Vietnamese Joint Stock Bank provides further insight into the lending habits of Vietnamese banks, and so the availability of credit to private enterprise. Hainz et al (2011) had access to the JSB's loan portfolio for June 2006 until March 2009. The data set consisted of 51,161 loans to 'commercial, real-estate, consumer and 'other' borrowers'. Thirteen percent of total loans in the data set were for commercial purposes, predominantly to SMEs or single entrepreneurs - just over half were to consumers. The researchers found that the bank categorised borrowers according to risk. Loans offered without collateral were charged higher interest rates than those with collateral. Collateralised loans were also granted for longer periods and were more likely to be larger than 100 million VND (approximately USD 6,200). Consistent with Figure 13 the number of new loans peaked in 2007 and by 2009 was 41 percent of the 2007 (Quarter 4) level. The study found that borrowers with 'lower credit quality as observed by the bank are more likely to pledge collateral' and concluded that 'observed credit risk is the dominant factor in determining the use of collateral' and that the higher credit risk observed by the bank the more collateral will be pledged. However they also found that wealthier borrowers pledged collateral to secure lower interest rates. The importance of collateral for commercial loans is illustrated in Table 18.

Table 18: Collateral and interest in a JSB

	Commercial Loans
Number of Loans	5,226
Proportion of Collateralised Loans	26,5%
Average collateral to loan value ratio	5.0
Average interest rate (Collateralised loans)	14.5%
Average interest rate (Un-collateralised loans)	20.8%

Source: Adapted from Hainz et al. (2011, p. 27)

Hainz et al. also discovered that larger loans have collateral with a higher absolute value but low value relative to the size of the loan. Moreover, the absolute and relative values of collateral increased during the economic crisis in Vietnam (in Quarter 3, 2008) before dropping again.

The study supports the general proposition that bank credit is a function of available collateral, and that the greater the amount of collateral the lower the costs of borrowing and the larger the absolute loan that can be secured.

6.4.1. World Bank Enterprise Surveys

The World Bank conducts enterprise surveys in 135 countries[58]. In Vietnam surveys were conducted in 2005 and 2009. In 2005 1150 firms were surveyed, and in 2009, 1553. There are substantial differences in the types of firms surveyed. The questionnaire was also different. A number of variables relevant to this study are not reported in the 2009 questionnaire. For example, the 2009 survey does not record any details of firm balance sheets. Similarly, lines of credit and loans become one variable in 2009. Nevertheless, the data from the surveys can add to the analysis.

6.4.1.1. Relationship with Banking sector

The surveys can help shed some more light on the sources of finance and working capital for firms of different sizes and ownership types, and also on the importance of pledging collateral when securing a loan. The 2004 survey provides some balance sheet data, including the amount of 'cash' held at the end of the year.

Table 19 displays the proportion of surveyed firms that hold a 'checking' or 'savings account'. If anything we would expect a higher proportion of firms to have an account in 2009. The differences between the figures points to the difficulties making useful comparisons between the two years.

Table 19: Proportion of Firms with Bank Account

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
2005	84%	90%	95%

58. See http://www.enterprisesurveys.org/.

2009	80.1%	82.2%	84.3%

Table 20 shows the proportion of small, medium and large firms that pledged collateral when securing a loan.

Table 20: Surveyed Firms with Loans that Pledged Collateral

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
2005	93.3%	93.6%	85.2%
2009	94.6%	95.4%	89.3%

In 2009 of the 39% of firms that reported not having a loan the majority (63.4%) did not need a loan. Of the remainder 5.9% found the collateral requirements too high. In 2005 50% of firms that did not have a loan (379) did not need a loan. Of the remainder 11.3% found collateral requirements too strict. Of these 43 firms 12 were small, 21 medium and the remainder over 100 employees. Of the 58 with a loan request turned down the majority (23) lacked the 'accepted' collateral. These figures point to the importance of collateral in accessing credit from banks. Table 21 shows the ratio of collateral to loans in both years.

Table 21: Ratio of Collateral to Loans

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
Ratio of collateral to loan 2005	1.76	1.66	1.41
Ratio of collateral to loan 2009	2.88	2.15	1.92

The results in Table 21 are difficult to interpret. The 2005 figures are the interviewees response to a direct question asking the value of collateral as a proportion of the loan. No such question is asked in the 2009 survey. However, interviewees are invited to provide an estimate of both the value of the last firm's last loan and the value of the collateral (if any was pledged) to acquire the loan. In calculating the ratio it becomes clear that one or both values are not accurately reported as some values are extremely high. The values in Table 21 are the means of calculated values under or equal to ten. Nevertheless, although it is difficult to determine whether there has been a change between 2005 and 2009 the fact that the ratio is higher for smaller firms in both years (the ranking remains the same even if outliers are not excluded) suggests that smaller firms are asked to pledge a higher proportion of collateral to loan size than larger firms.

An OLS regression with the ratio of collateral to loan as the dependent variable suggests that the size of the firm and being able to pledge land or fixed assets as collateral is a significant determinant of the size of collateral. State ownership proved not to have a significant impact.

Figure 29: Type of Collateral as Determinant on Value of Collateral Pledged

Model Summary

Model	R Did the loan require collateral or a deposit?	R Square	Adjusted R Square	Std. Error of the Estimate
1	.226[a]	.051	.046	80.08698

ANOVA[b,c]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	207367.415	3	69122.472	10.777	.000[a]
	Residual	3867596.450	603	6413.924		
	Total	4074963.864	606			

a. Predictors: (Constant), sizeover100, If yes, land and buildings were used as collateral, If yes, personal assests of the owner/manager (e.g. house)

b. Dependent Variable: What was the approximate value of the collateral required as a percentage of the loan?

c. Selecting only cases for which Did the loan require collateral or a deposit? = Yes

Coefficients[a,b]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	238.629	18.748		12.728	.000
	If yes, land and buildings were used as collateral	-21.963	6.640	-.133	-3.308	.001
	If yes, personal assets of the owner/manager (e.g. house)	-24.522	8.696	-.114	-2.820	.005
	sizeover100	-17.771	6.776	-.108	-2.623	.009

a. Dependent Variable: What was the approximate value of the collateral required as a percentage of the
b. Selecting only cases for which Did the loan require collateral or a deposit? = Yes

Coefficients[a,b]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.920	.861		18.484	.000
	sizeover100	-6.397	1.214	-.212	-5.270	.000
	soe	-4.782	1.668	-.115	-2.867	.004

a. Dependent Variable: cashcurrent100
b. Selecting only cases for which Did the loan require collateral or a deposit? = Yes

Table 22 shows the type of collateral pledged by firms of different size in both 2005 and 2009. Smaller firms pledge a higher proportion of the owner's assets than larger firms, as might be expected. Larger firms are able to pledge plant and machinery and are less dependent on land.

Table 22: Types of Collateral (2005)

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
Land and Buildings	71.4%	60.0%	46.9%
Immoveable plant, machinery	33.3%	50.2%	69.6%
Moveable machinery and equipment (incl.vehicles)	31.0%	40.4%	56.7%
Other tangible assets (e.g. accounts receivable, inventory)	0.0%	11.5%	16.8%
Personal assets of the owner/manager (e.g. house)	35.7%	23.4%	10.6%
Other	0.0%	4.3%	5.6%

Table 23: Types of Collateral (%) (2009)

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
Land and Buildings	59.7%	71.7%	79.5%
Machinery and equipment including movables	28.1%	41.7%	70.1%
Accounts receivable and inventories	2.9%	5.3%	20.5%
Personal assets of owner (house, etc.)	48.2%	42.1%	20.9%
Other	2.9%	3.6%	7.3%

Many firms pledged more than one category of collateral. Percentages represent the proportion of firms in each size category that pledged collateral. Table 24 and Table 25 report the sources of working capital for firms of differing sizes in 2005 and 2009.

Table 24: Sources of Working Capital (%) (2005)

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
Internal funds or retained earnings used for working capital	36.59	31.21	22.19
Private commercial banks (loan, overdraft) used for working capital	1.21	3.57	2.48

State Owned commercial banks used for working capital	9.7	15.43	32.05
Private investment funds used for working capital	1	1	1
Trade credit (supplier or customer credit) used for working capital	3.22	5.91	9.44
Equity or sales of shares used for working capital	35.57	29.18	23.22
Family, friends used for working capital	10.7	7.74	2.71
Corporate bonds used for working capital	0	0	0.14

Table 25: Sources of Working Capital (%) (2009)

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
Internal funds/Retained earnings	68.0	58	47
Borrowed from banks (private and state-owned)	20	28	37
Borrowed from non-bank financial institutions	0	1	0
Purchases on credit from suppliers and advances from customers	2	4	6
Other (moneylenders, friends, relatives, etc.)	8	6	5

In both years own funds are a significant source of working capital for all firms, but more so for smaller firms. The category for 2009 conflates retained earnings and the internal funds of the firm with equity or funds of the owner. Combining both in 2005 provides a similar figure. Large firms are more likely to use state owned banks. Few firms use private banks in 2005. Unfortunately, it is impossible to say for 2009. Again, as might be expected a greater proportion of smaller firms go to informal sources for working capital.

This thesis also asks whether smaller firms hold more cash than larger firms. Table 26 suggests that on average smaller firms hold 15 percentage points more cash than larger firms as a proportion of current assets.

Table 26: 2005 Ratio of Cash to Current Assets, Total Assets and ST Liabilities. (Averages of 2003 and 2004)

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100	Large >=300
Cash/ current	26.64	16.73	10.06	9.63
Cash/ Total Assets	11.94	7.62	4.87	4.79
cashofstliabx100	244	65.09	27.08	25.56

Smaller firms do indeed hold more cash as a proportion of both current assets and total assets. Interestingly they also hold, on average, over twice as much in cash as the value of their short term liabilities, a value that also decreases as firms get bigger. An OLS regression (Figure 30) supports this observation, suggesting that larger firms and SOEs tend to hold less cash as a proportion of current assets.

Figure 30: Cash as a Proportion of Current Assets (OLS)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Did the loan require collateral or a deposit? = Yes (Selected)			
1	.271[a]	.073	.070	14.49321

a. Predictors: (Constant), soe, sizeover100

ANOVA[b,c]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10576.250	2	5288.125	25.175	.000[a]
	Residual	133803.784	637	210.053		
	Total	144380.034	639			

a. Predictors: (Constant), soe, sizeover100

b. Dependent Variable: cashcurrent100

c. Selecting only cases for which Did the loan require collateral or a deposit? = Yes

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	15.920	.861		18.484	.000
	sizeover100	-6.397	1.214	-.212	-5.270	.000
	soe	-4.782	1.668	-.115	-2.867	.004

a. Dependent Variable: cashcurrent100

b. Selecting only cases for which Did the loan require collateral or a deposit? = Yes

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	15.920	.861		18.484	.000
	sizeover100	-6.397	1.214	-.212	-5.270	.000
	soe	-4.782	1.668	-.115	-2.867	.004

a. Dependent Variable: cashcurrent100

b. Selecting only cases for which Did the loan require collateral or a deposit? = Yes

This thesis also suggests that diversified firms are better able to manage liquidity and so less likely to hold cash as opposed to other liquid assets or rely on sales revenues to meet commitments. Table 27 presents two variables - 'two activities' and 'two diff activities'. The first represents firms that report revenues of more than thirty percent in two activities. The second is firms that report two distinct SITC numbers. The Table suggests that although the average cash holding is lower than the sample average the difference is not great. This is not necessarily surprising as the data does not allow us to determine the structure of the company, and whether the different activities are carried out by different subsidiaries.

Table 27: Cash as Proportion of Current Assets for Diversified Firms.

	Small >=5 and <=19		Medium >= 20 and <=99		Large >=100	
	Mean	Count	Mean	Count	Mean	Count
All	26.64	116	16.73	427	10.06	588
Two activities	22.12	43	16.23	209	9.89	320
Two diff activities	22.48	31	14.71	144	9.83	221

Table 28: Cash as a Proportion of Current Assets for Various Diversified Firms

	Mean Cash/ Curr Assets
Large Div Firm	7.33
Div Firm	12.3
300+ workers (single activity)	9.75

The large diversified firm is a firm that reports operating in two distinct activities (as in Table 27), but which employs at least 300 workers. The cash/ current asset ratio is lower at 7.33 percent. The diversified firm is the average of firms operating in two distinct activities. That such firms operate in more than one activity does not however mean they take a conglomerate structure. The GC structure is, however, a formal conglomerate with the autonomy of subsidiary firms a function of the equity owned by the General Corporation. The 2005 survey records whether a firm that identifies itself as an SOE, a JS Company or One Member Limited Liability Company is a member of a GC. Table 29 records the average cash holding of SOE and JS members of GCs by size and compares them to non-GC SOEs and JS companies.

Table 29: Impact of Being a Member of a GC on Cash Held as Proportion of Current Assets

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
GC Member	5.36	8.41	7.90
SOE non GC	-	16.26	5.98
SOE GC	5.36	4.76	5.76
JS non-GC	24.13	11.97	10.67
JS GC	-	11.06	10.04
All	26.64	16.73	10.06

Again smaller firms hold more cash (although only there is only one firm in the sample that is both a member of a GC and employs fewer than 20 people). However, although GCs appear to hold, on average, less cash than other firms there is little difference between GC member JS companies and non-GC JS companies, and similarly between non-GC SOEs and unattached SOEs. With regards to GC members in which the state has a minority stake this can be explained by the fact that such companies tend to operate autonomously, with little need for support from the GC[59]. As SOEs themselves appear to hold less cash than the population average it is perhaps also not surprising. Table 30 and Table 31 report sources of investment capital in 2005 and 2009.

Table 30: Sources of Investment Capital (%) (2005)

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
Internal funds or retained earnings used for new investments	36.19	33.14	26.91
Private commercial banks used for new investments	1	4	2
State owned commercial banks used for new investments	4.89	17.35	32.17
International commercial banks used for new investments	0	1	2
Private investment funds used for new investments	3	1	0
Equity or sales of shares used for new investments	45.4	30.88	22.22
Family, friends used for new investments	6.93	7.81	2.54
Informal sources used for new investments	1	1	0
Corporate bonds used for new investments	0	0	0.12

59. See Chapter 7 for further discussion of GC subsidiaries

Table 31: Sources of Investment Capital (%) (2009)

	Small >=5 and <=19	Medium >= 20 and <=99	Large >=100
Internal funds or retained earnings	76	67	59
Owners' contribution or issued new equity shares	3	7	11
Borrowed from banks (private and state-owned)	10	18	20
Borrowed from non-banks financial institutions	0	0	0
Purchases on credit from suppliers and advances from customers	2	1	3
Other (moneylenders, friends, relatives, bonds)	8	5	3

As expected smaller firms made greater use of internal funds and retained earnings, and relied less on banks. In 2005 smaller firms called on private equity. The survey reports that very few firms issued equity in 2008. Given that the 2009 survey included more listed firms than the 2005 survey this is difficult to explain, and may be related to the downturn in 2008.

6.5. Conclusion

This Chapter has examined the composition of the firm sector and its investment, funding and financing behaviour over the course of the 1990s and 2000s in Vietnam. The objective was to determine the extent of enterprise sector savings deficits and the consequent sources of financing; how those sources changed as the institutional structure changed; and how firms differed in the financing, funding and liquidity management behaviour in response to changes in the financial sector, which, also corresponds to a period of financial deepening.

It found that firms of all ownership types tended to rely on retained earnings for investment. Until the mid-2000s investments were typically not greater than firm savings. This can partly be attributed to state intervention in the banking sector and the absence of effective capital markets, as well as legislation concerning the private sector. In the run up to accession to the WTO, and corresponding capital inflows, accelerated equitisation of the SOE sector and liberalisation of the banking sector there were changes in enterprise sector behaviour. Notably, firms had greater access to credit on more relaxed terms as well as to equity markets. Joint-Stock companies tended to experience a greater increase in investments over profits. This can largely be attributed to nascent entrepreneurial capital, and equitisation of state owned enterprises. The small average size of private JSCs suggests that capital contributions from private investors were small.

Kalecki's equation suggests that investments will return to firms in proportion to profit margins. It might be expected given the objectives of the state that state owned enterprise investments would have lower profit margins, and so would in effect be financing private sector firms. This does not appear to be the case. SOEs and equitised SOEs continue to generate the highest profits and so have the greatest access to retained earnings for subsequent investments.

The evidence appears to confirm that banks lend a proportionate amount of pledged collateral. Bank financed investments will, therefore, be limited in size by the possession of suitable assets. For most category of enterprise liability/ equity ratios have remained constant over the time in which data are available, suggesting that firms are either not able or choose not to increase the incidence of bank based investments.

Studies of smaller firms find the majority do indeed finance investments from retained earnings, although larger firms are able to seek bank credit for working capital. This suggests in turn that smaller firms will need to hold greater cash balances. This is also born out.

Chapter 7: Case Studies of Vietnamese Firms

7.1. Introduction

Since the early 1990s Vietnam has seen the gradual reform of the institutions and legislation that concern the enterprise sector and the finance and banking sectors. State owned enterprises have been liquidated, merged and reorganised into General Corporations, and they have gained substantially more autonomy in their day to day operations. It has also become easier to establish and run a private business. At the same time the finance and banking system has experienced substantial change, and capital flows into Vietnam, triggered by the equitisation of SOEs and accession to the WTO, have ensured the financial landscape has changed significantly. Chapter 4 looked to marry the balance sheet firm and post-Keynesian approaches to financial development and the relationship between the real and financial sectors and made a series of propositions. Chapter 6 explored these propositions using flow of funds analysis and making use of available firm data. This chapter seeks to look more closely at the concomitant development of the firm and finance sector by using case studies of different types of firm in Vietnam. In Vietnam the vast majority of large firms are conglomerates in the form of General Corporations and their subsidiaries. Of these subsidiaries some concentrate on one main activity, whilst others are developing a more diversified structure. Other large firms in Vietnam have some degree of state ownership but have operated with relative autonomy from the state. A small number are and always have been private.

This Chapter will make use of a survey conducted by the author of Vietnam's largest firms. The behaviour of these firms in response to developments in the finance sector will be analysed. It will also present analysis of the uses of the proceeds from stock issues of sixty-four non-financial firms that listed on the Hanoi stock market in 2007 and 2008.

Section 7.2 will present the findings of a survey of Vietnam's largest firms supplemented with secondary sources and, where possible, balance sheet analysis. Section 7.3 will look more closely at the balance sheets of listed firms. Section 7.4 will conclude.

7.2. Vietnam's Largest Firms

Chapter 6 pointed to the dominance of the SOE sector in the population of domestically owned large firms in Vietnam. To understand better the relationship between large firms in Vietnam and the finance and banking sector this Chapter will develop case studies of large firms in Vietnam. As the characteristics of the enterprise sector in Vietnam are largely the outcome of Vietnam's recent economic history firms differ in a number of ways, most obviously in terms of ownership, and the degree to which their activities are determined by the government's economic plans. This section will organise Vietnam's largest non-financial firms into three categories: General Corporations (GCs), the subsidiaries of GCs and large private firms. This Section is based on questionnaires and interview notes in a survey designed and conducted by the author of the largest firms in Vietnam in 2007, the year of Vietnam's accession to WTO. The interview notes will be supplemented with secondary sources and further interviews.

7.2.1. Survey Methodology

The data used in this Chapter was collected as part of a survey conducted by the Country Economist Unit of the United Nations Development Programme (UNDP) in Hanoi. The research data are held by UNDP in Hanoi and are available upon request. Methodological issues were published in UNDP 2007. Participants in the survey all gave their permission for the results of the survey to be published in the public domain. The data used in this chapter are derived from interview notes and survey results. The resulting discussion and argument developed in this chapter are the author's original interpretation of otherwise publicly available data. However, although the data are publicly available to ensure the discussion in this chapter is in accord with SOAS Research Ethics Policy[60] no names of interviewees will be used.

The original survey targeted the two hundred largest non-financial firms in Vietnam. Eighty-eight interviews were conducted. This chapter will make use of a combination of interviews conducted by the author and secondary sources including company websites.

60. Accessed http://www.soas.ac.uk/researchoffice/ethics/file50158.pdf, October 13th 2012.

As will be explained below the firms will be categorised as General Corporations (GCs), the subsidiaries of General Corporations, firms adopting the 'Parent-Child Structure', quasi-private firms and private firms.

In the sections below interviewees are quoted. Quotes are derived from notes taken in English during the interview, and cannot be taken as verbatim. However, they are a fair reflection of what was reported. Quotes are used to reinforce the argument of the chapter. Where they might reveal a sensitive issue for a particular firm they have not been used.

Two hundred firms were selected from the 2006 Enterprise Survey produced by the Government Statistics Office (GSO), developed from enterprises registered with the tax office at the Ministry of Finance. The annual survey covers foreign and domestically owned enterprises employing more than ten people. For the purposes of the study firms with 100 percent foreign ownership were excluded. Joint ventures, or firms in which foreign firms held equity were included.

The enterprise survey was and is problematic in a number of ways. First, the data are known to be unreliable. Many firms deliberately reported incorrect values for 'turnover' and other variables. The value of firm assets is also problematic, both because of well known problems valuing assets and also, again because of misreporting. A further issue is the tendency to include all independent accounting enterprises as individual units. For the most part data for General Corporations includes the GC headquarters and affiliates, but excludes joint stock companies. On the other hand some GCs include all the associated enterprises. This results in a degree of double counting, and also in inaccurate representation of GCs. The decision was made to include GCs in the survey as many were and are important actors in the Vietnamese economy. Large subsidiaries that were listed separately were also included. Once foreign enterprises were excluded firms were ranked according to turnover, assets and number of employees. This method was chosen to provide a more complete picture of the economy. Some firms, particularly financial companies, were highly ranked in terms of assets, but not in employment or turnover. Some labour intensive firms with many employees reported low turnover and assets. The firms that were ranked highly in only one of the lists and so excluded were garments or footwear (employment), financial services (assets) and petroleum trading companies (turnover). Two hundred firms were chosen so as to include some of the larger private companies that would otherwise be excluded in a 'Top 100' or 'Top 50'. A recent attempt to rank firms by capitalisation includes the majority of firms included in the original survey[61].

The top 200 firms (including foreign firms) in the survey commanded a significant proportion of total assets, labour and turnover employed by their ownership type.

Table 32: Top 200 share of labour, assets and turnover

Ownership Type	**No. firms in Enterprise Survey**	**No. firms in Top 200**	**Top 200 share of ownership type % (Labour)**	**Top 200 share of ownership type % (Assets)**	**Top 200 share of ownership type % (Turnover)**
State	4,083	122	29.6	65.5	41.9
Private	105,167	22	1.9	13.7	4.8
Foreign	3,697	56	15.9	10.1	24.3

Once forty-one 100% foreign owned firms were excluded thirty four state firms, five private and two joint ventures were included. The majority (120) were GC affiliates (Table 33).

61. http://www.emergingmarketsanalysis.com/web/Vietnam/index.htm

Table 33: General Corporation Affiliates

General Corporation	**Abbreviation**	**No. Firms**
Vietnam National Coal and Mineral Industries Group	Vinacomin	15
Vietnam National Textile and Garment Group	Vinatex	11
Vietnam National Cement Corporation	VNCC	9
Vietnam Rubber Group	Geruco	8
Vietnam National Chemical Corporation	Vinachem	8
Vietnam National Shipping Lines	Vinalines	5
Vietnam Shipbuilding Industry Group	Vinashin	5
Vietnam Insurance Group	Bao Viet	4
Vietnam Oil and Gas Group	Petrovietnam	4
Vietnam Post and Telecommunications Group	VNPT	4
Hanoi Construction Corporation	HACC	3
Vietnam Airlines	Vietnam Airlines	3
Vietnam National Petroleum Corporation	Petrolimex	3
Vietnam Paper Corporation	Vinapaco	3
Civil Engineering Construction Corporation No. 5	Cienco 5	2
Electricity of Vietnam	EVN	2
Hanoi Electronics Corporation	Hanel	2
Song Da Construction Corporation	Song Da	2
Vietnam Engine and Agricultural Machinery Corporation	VEAM	2
Vietnam Industrial Construction Corporation	Vinaincon	2
Vietnam Railways	VNR	2
Vietnam Steel Corporation	VSC	2
Other GCs (Head offices)		19
Total		**120**

Two questionnaires were then devised, one for firms and one for General Corporations (Appendices 4 and 5), and distributed. The questionnaire was intended to capture data and also to provide background information for the interview. The questionnaire included sections on labour and skills, finance, technology, and firm history. The Ministry of Planning of Investment, provincial People's Committees and provincial Departments of Planning and Investment assisted in contacting firms, arranging interviews and obtaining completed questionnaires. Of 200 firms 104 returned questionnaires and eighty eight interviews were conducted with firms and general corporation head offices and five interviews with industry associations. These included eighteen interviews with firms that did not return questionnaires.

The majority of firms returned the questionnaire before the interview date. Prior to interview firms were researched in the Vietnamese press, and where possible statements made in interview were cross-referenced. Given the relationships between subsidiaries and GCs it was also possible to investigate issues from different perspectives. The interviews themselves were semi-structured and conducted through a translator. Interviewees were senior managers, who were occasionally senior members of accounts and technical departments.

The results of the questionnaire and interviews used in this Chapter concern the sources of finance and liquidity for firms, and the relationships between the firms and the state. This Chapter draws primarily on firm histories and responses concerning financial matters. Financial information was drawn from questions concerning sources of finance (in which interviewees were asked to rank sources now, five years ago, and in five years, the ease of and requirements for accessing finance of different types (and how that had changed) and key financial ratios. In interview interviewees were asked to expand on their answers. They were also asked about how key investment decisions had been made and how they had been financed. In this way firms gave further insight into how financial issues had changed over time. Firms were also asked about relevant issues that had been reported in the press or elsewhere, and also matters unique to individual industries. Where possible industry reports and studies were also consulted. In some cases it was also possible to interview former employees to gain further insight[62]. For one firm the author was able to interview the manager of one of the company's larger subsidiaries. A representative of HCMC People's Committee in the 1980s was able to provide further insight into the origins of another. Various departments of Binh Duong People's Committee were happy to answer questions about a firm in the province. A number of firms do make balance sheets available to the public, and where possible these have been consulted. Interviews took approximately two hours and were often supplemented with a tour of the firm and plant, where more questions could be asked, and insight gained. A number of firms responded to further questions by email following the interview.

62. These interviews were conducted separately.

It is possible that the interviews were biased in some respects. The survey was conducted on behalf of the United Nations Development Programme (UNDP) in Vietnam and interviewees were told the results would be relayed to government via a final report. Interviewees may, therefore, have emphasised certain issues they would not have reported to representatives of a state organisation. It is also likely that firms were reluctant to share data or information that would have presented the firm in a bad light. In the months following the interview, one firm, for example, was reported to be dangerously indebted to Cuban banks. Interviewees gave no indication of this. On the other hand a number of interviewees were particularly candid when discussing the relationship with the State and financial reporting. It is unlikely they would have engaged in such discussions with independent or state sponsored researchers.

7.2.2. The Firms

In this Chapter Vietnam's largest firms are categorised first by ownership, and then whether and when they pursued a diversified conglomerate form. Of the firms surveyed twenty-two are state owned corporations, or 'General Corporations'. This Chapter will focus on fourteen of the GCs that were interviewed. It will then turn to the twenty-nine subsidiaries of these corporations, distinguishing between those that remain single activity firms and those that have diversified adopting a 'parent-child' structure. Twenty-two are state owned firms owned, or previously owned by state bodies such as ministries or people's committees. A third category of firm is the 'quasi-private' SOE. These are firms that are or have been nominally state owned, but throughout their history have demonstrated substantial autonomy. Finally nine privately owned companies, of which three were established in the 1980s will be considered.

All the GCs and their subsidiaries are now equitised. The state holds a majority share in the GCs. Of the subsidiaries the parent GC owns a majority share in all but three. Of the remainder the state owns 100% of 14 firms and a majority share of twelve. Nine firms had adopted a 'parent-child' structure in which the firm held a share in a number of subsidiaries. In 2006 and 2007 as part of the equitsation process four GC subsidiaries adopted the ‘parent-child’ (PC) model. Four state owned firms have also adopted a similar structure since the 1980s, as has one private company.

All firms employed over 1,000 people. Of the GCs, Vinacomin (Coal) employs over 100,000 people in member companies; VNPT employs 87,000 people; EVN, Petrovietnam, Petolimex, Geruco, Vinashin, Vinalines employ over 20,000 people; Lilama over 12,000 people and the remaining GCs between six and ten thousand people. Three of the remaining firms employed over ten thousand workers; seven firms employed between six and ten thousand people; fifteen between two and six thousand, and the remainder between one and two thousand.

This Chapter will discuss General Corporations, the subsidiaries of GCs, subsidiaries of GCs that have adopted a ‘parent-child- structure’,

7.2.3. General Corporations

General Corporations (GCs) were established by the state to manage state owned enterprises in sectors regarded as economically ‘strategic’. In most cases existing firms in the same or similar industries were grouped together with each reporting to the GC headquarters, which held a share of the company. General findings will be discussed and two case studies, of Vinatex and Vinashin, will be presented. Interviews were with the GC headquarters as well as subsidiaries.

7.2.4. GC Financing

As illustrated in Chapter 6 a number of GCs were able, with government support, to issue bonds to finance investments. Otherwise the eleven GCs that responded to questions on the sources of finance in the questionnaire and interview indicated that there had been very little change in sources of finance between 2002 and 2007. Of these all but two listed retained earnings and loans from SOCBs as the two primary sources of investment finance. Three also listed the Development Assistance Fund (DAF) as a significant source of finance. Two reported that SOCB loans had replaced retained earnings as the most important source of funds in the intervening five years.

Each GC was asked to score access to capital as a constraint on a scale of one to five (five being no constraint). Three (the smallest corporations) scored ‘two’; nine scored ‘four’ or ‘five’. Fourteen GCs responded when asked if it was easier to secure loans. Of these two reported it was harder, one that there was no change and the rest that it was easier. In interview most of these firms reported that it was easier because there were more banks willing to lend, and that as large firms able to offer collateral banks were willing to lend to them. The two GCs that reported that it was now harder to secure loans said that more collateral was required. The rest reported that no more collateral was required than previously. Unfortunately, only five GCs were able to report the proportion of short term to long term loans. Of these only two reported less than 50%. Three reported 60%, 73% and 91%.

The following are two more in depth case studies of two GCs, Vinatex and Vinashin.

7.2.4.1. Vinatex

Vinatex is responsible for the garments and textiles sector (G&T). It is charged with building the garments and textiles industry, managing state assets in the sector and implementing other aspects of government policy. The garments and textiles industry is particularly valued as an employer. Vinatex’s role in the G&T industry can be dated to 2006, when Vinatex was restructured with the help of PricewaterhouseCoopers and transformed it into a ‘profit-oriented holding company’ (Martin, 2008). Vinatex will itself also be equitised. The plan is for the state to hold 65 percent of the company[63]. The majority of the capital in Vinatex member companies is, however, privately owned (IBM Belgium et al., 2009).

Vinatex has seven ‘non-productive’ subsidiaries, including trading colleges, design firms and research institutes; ninety-nine joint stock companies, the majority in textile and garments production, but also several in waste water management and infrastructure

63. http://vietnambusiness.asia/tag/vinatex/, accessed 13/ 07/ 2012. As of January 2013 it has not been equitised.

development for the G&T industry[64]. A number of Vinatex's subsidiaries have their own subsidiaries, creating, in effect, a large pyramid structure. The relationship between layers is, primarily, determined according to ownership and to the Law on Enterprises. The role of Vinatex in a subsidiary joint-stock company, for example, will reflect Vinatex's ownership share and voting rights on the board. This relationship has evolved with changes in the enterprise law and other relevant legislation.

According to the interviewee once companies had been equitised member firms become more autonomous. Vinatex devises an industry plan, but members are not obliged to follow it. However, firms are encouraged to remain in the G&T industry, as, the interviewee explained if they focussed only on profits and efficiency they might operate in different sectors, for example real estate.

Vinatex 'trading' subsidiaries manage internal distribution systems within the group, however, there is no obligation for firms to sell inputs (fibres and fabrics) to other Vinatex members. Nevertheless, firms are encouraged to trade with other members who are facing financial difficulties. Vinatex has also opened showrooms and markets across the country for the use of members and other firms. They are also developing chains of Vinatex branded shops, to sell the group's higher quality products. Vinatex hopes to have developed an entire supply chain within the group by 2015. Although, in its infancy, there are also moves to expand the distribution system internationally. According to the interviewee Vinatex also intervenes to 'help members avoid competition [with each other], by providing warnings, information and suggestions for future plans and production activities. [Vinatex] also help firms to avoid overlapping investments.'

Vinatex receives a management fee from its members and does not subsidise them, although it is able to provide them with a credit guarantee if necessary. According to the interviewee a lack of funds was a large constraint on the Group's, and so industry's development. The target for 2011, for example was to increase the proportion of inputs into garments production to fifty percent, however, by early 2012 seventy percent of the value of inputs was imported. The company has also forged partnerships with producers

64. http://www.vinatex.com.vn/Intro.aspx, accessed 10/6/2012

in Cambodia and Myanmar in an attempt to expand its supply chain[65]. However, according to the interviewee the state does not have the funds to support the group, which instead sought funding from banks and joint ventures with foreign partners.

There are moves to develop the financial capacity of Vinatex. One subsidiary, Textile-Garment Financial Co (TFC) (listed on the Hanoi Stock Exchange in June 2011), whose role is to provide credit to member companies 'at market rates' who could not access credit elsewhere, has become a financial trading company, whose role is to invest on behalf of Vinatex in the stock market, as well as to pursue other investment opportunities. The firm can also access credit from other financial institutions[66].

7.2.4.2. Vinashin

Vinashin was born as an attempt to replicate the industrial policy of South Korea, and in some respects Japan. Shipbuilding was designed to provide employment, generate supporting industries, attract foreign investment and foreign expertise and enable Vietnam to embark on a rapid period of 'catch-up'.

Vinashin's membership consists of the country's shipyards, ship repair yards and other shipbuilding related businesses. Many predated the establishment of the group in 1996. However, Vinashin and members of the Vinashin group have since established nearly four hundred new subsidiaries, many of which operate in sectors that have nothing to do with shipbuilding. Like Vinatex, Vinashin is charged with building a sector considered important to Vietnam's economic development. Vinashin shipyards began building progressively larger ships for domestic and foreign clients from 2000, with the intention of being the fourth largest shipbuilder in the world by 2010. A dual objective, like all

65. http://vietnambusiness.asia/Vietnam-vinatex-aims-to-raiselocalization-

rate-to-50-in-2011/ accessed 12/07/2011.

66. One such investment is in a JSB, Navibank. However, since 2010, the Government has restricted the ability of State Groups to invest in banks and other financial institutions, limiting its share to eleven percent (http://english.vietnamnet.vn/biz/201009/Small-banks-havetrouble-with-recapitalization-937094/, accessed 12/07/2011)

GCs, is to increase the proportion of final content produced in Vietnam. Again, like Vinatex, they have struggled.

Vinashin coordinates production across the group, selecting shipyards and other subsidiaries to carry out tenders it has won. It also invests in new subsidiaries, most of which are designed to increase local content and design capabilities. Like Hyundai[67] before it Vinashin also benefited from an acquiescent state owned shipping company, instructed by the government to purchase ships produced by Vinashin, including those rejected by foreign clients.

Because shipbuilding is a capital intensive industry debt and debt management is central to the success of the enterprise. As individual shipyards cannot access loans sufficient to meet the costs of large projects, Vinashin jointly with the Vietnamese government releases international and domestic bonds. Funds are then distributed throughout the group by the subsidiary, 'Vinashin Finance'.

Unfortunately, the recent experience of Vinashin suggests that shipbuilding was a poor policy choice. A state audit of Vinashin in 2010 revealed the company to be USD 4.5 billion in debt. In December 2010 and then in May 2011 the company was unable to repay scheduled tranches of this debt contributing to the downgrading of Vietnam's credit rating. A number of Vinashin subsidiaries have since been moved to other GCs in an attempt to streamline the company.

Major challenges for Vinashin are financing investment and managing cash flow. At the end of the 1990s Vietnamese shipyards were small and possessed out of date capital equipment and infrastructure. In order to meet the requirements of foreign buyers shipyards needed large capital injections, which neither the firms, Vinashin or the Government could properly afford without securing large loans. Producing ships typically involves the producer borrowing to finance the project, and receiving payment on final delivery. As explained by interviewees in Vinashin and a number of member shipyards this is a risky endeavour. According to one senior manager of Nam Trieu, a Vinashin shipyard:

67. Amsden (1992)

> '[The client] pays thirty percent up front. Nam Trieu has to get the loan [for the remainder] by itself from commercial banks. At the moment shipbuilding does not bring much profit, but can help solve social issues like providing jobs to large numbers of workers. We have to import most of the components. Most of the profit comes from labour, but not much. This is why Vinashin's policy is to increase local content… then we can talk about profits'.

Another manager at another Vinashin shipbuilding company said:

> 'Before we sign a contract we prepare tentative production costs and submit them to Vinashin. Usually profits are [included] as two percent of this cost. When we sign the contract we usually build a series of ships. So maybe for the first few we make a loss, but we make profits on later ships as we become familiar with the technology and the production process… Profits are very low because we don't have capital. We have to get bank loans and pay them back. Every year on average we have to pay in interest about 100 billion VND.'

The interviewee at Vinashin cited cash flow as the main difficulty:

> 'Cash flow dictates. It is positive or negative, [depending] on the period. When it is negative we need to borrow or find another way to generate cash. One way is to equitise firms. Then we get cash from the stock market, but we lose control of the firm, and are not able to implement the plan in the future. This is why Vinashin [is quite slow] to equitise its member companies, and why Vinashin holds a dominant share [in its subsidiaries]. Stock market investors want a quick return, but Vinashin as a long term plan. We need other sources of finance: domestic and international bonds… [or] government on-lending…'

A Norwegian financed study into Vinashin and the shipbuilding industry in Vietnam came to a similar conclusion, pointing to the large debt and following the onset of the global financial crisis the cancellation of seventeen percent of Vinashin's order book (Gille and Bruce 2010). Indeed, the crisis and fall in orders is the principle reason for Vinashin's ongoing woes. The same study argued that the government led drive to build the shipbuilding industry 'posed a financial burden on the sector which may hamper the industry in the coming years if the market remains weak'. Vinashin's financial difficulties were laid bare by first a KPMG audit in 2009 and then in 2011 a state sponsored audit, whose results have been widely reported:

Table 34: Vinashin Liabilities

	2007	2008	2009	2010
Long Term liabilities (Tril VND)	70,700	88,512	96,635	86,000
Current liabilities/ Current Assets		1.024	1.040	

Source: http://vef.vn/2010-10-30-vinashin-nhung-khoan-no-khong-dia-chi and http://uk.reuters.com/article/2010/11/29/vietnam-baoviet-idUKSGE6AS00Y20101129 for 2010 figure.

Vinashin's debt included a USD 750 million Government issued bond, and loans from the State Bank of Vietnam. Vinashin's debts were also misreported by the company. Both charter capital and total liabilities, for example, were reported to be lower than they actually were.

Vinashin is also charged with building the capabilities required for a world standard shipping industry. Gille and Bruce emphasise Vinashin's weak managerial and technological capacity, as well as the low productivity of most of its shipyards when compared to rivals across the world[68]. Interviewees from Vinashin shipyards tended to agree that capabilities were a problem, but also stressed that each new project involved a new period of learning, and that firms were improving. Related are the technical challenges inherent in establishing new firms in associated areas of the industry. Attempts

68. This is a familiar refrain. Vietnamese shipyards are compared unfavourably to Indian equivalents in (Harvard Vietnam Program 2008).

have been made, including a steel plant and a design company. However, other than issues of quality Gille and Bruce point out that most foreign buyers specify the source of the inputs they require, most of which are established foreign owned companies. The nature of the supply chain appears to be a further obstacle to Vinashin's attempt to build local content.

In order to secure alternative sources of cashflow Vinashin shipyards established subsidiaries, often in unrelated areas such as real estate, insurance, and tourism. Many suspect the explosion of subsidiaries to be attempts by shipyards to expropriate Vinashin loans allocated to shipbuilding projects. Indeed, the activities of Vinashin and Vinashin members were prominent in causing the government to attempt to restrain investments 'outside of core areas' among state-owned conglomerates. Nevertheless, as suggested above, those same investments can also be interpreted as attempts to manage cash flow by indebted companies, in the face of an uncertain future.

7.2.5. Subsidiaries

'Subsidiaries' are firms that are wholly or partially owned by a state owned parent company: either a General Corporation or a firm reporting to a People's Committee or Ministry. Through the equitisation process these firms have all been 'transformed' into either joint stock companies (JSCs) or limited liability companies (LLCs), and are all subject to the 2010 Enterprise Law. One hundred percent LLCs are entirely owned by the parent corporation. Joint-stock companies may have a number of owners depending on state policy and the outcome of the equitisation process. In principle shares will be owned by managers and workers, and the proceeds transferred to the parent company. In many cases shares will have been resold on the OTC market or the formal Hanoi or HCMC stock markets.

Northern firms in the survey were established as state owned enterprises in the 1960s. The majority began life as factories reporting to Ministries or to People's Committees. Southern firms, with a couple of exceptions, were former private firms or foreign owned firms expropriated after the end of the Vietnam war. In most cases firms continued to operate in the same broad activities, although a number moved into associated, but different areas. These include: paper production, fertiliser production, metalworks, tyres and other rubber products, shipyards, glass production, apatite and coal mines, seafood, shipping and garments.

In the mid-1990s the majority of firms were placed under the direction of General Corporations. Most firms had little responsibility beyond production. Profits were transferred to the parent company. Goods were produced according to an industry plan initially agreed between the parent and the relevant ministry or people's committee, and then subject to negotiations between the firm and the parent.

Following equitisation, or in some cases transformation into Limited Liability Companies, firms had greater autonomy and were ultimately subject to the decisions of the board that represented the firm's shareholders. If the parent company continued to hold the majority share then it held the right of veto. Nevertheless, the interviews indicated that in a number of cases tension existed between the parent company and management. In some cases the firm itself was able to exercise sufficient power. In others, a certain frustration is clearly evident. An interview with a large shipping company under the remit of Vinalines, revealed that the management felt that industry targets were negotiable. The interviewee hinted that the personal relationships between company management and the GCs rendered the plan to be largely meaningless. A tyre producing company, under Vinachem stated that by law permission from Vinachem was required for large investments and personnel issues, however, when discussing Vinachem's ability to 'coordinate' member tyre companies felt Vinachem were ineffective:

> '[It is difficult] for Vinachem to coordinate between members when they produce the same products. Vinachem's coordination isn't effective, although they have invited directors to meet to discuss the division of markets between members. Members just operate independently for their own benefits.'

The degree to which subsidiaries are beholden to GCs largely depends on access to loans and the ability to generate retained earnings. Nine of twenty-three subsidiaries reported that the main source of investment finance is retained earnings, followed by loans from SOCBs. Eleven placed SOCB loans above retained earnings. Some firms were dependent on GCs for finance and loan guarantees. Shipyards reported that loans from Vinashin were their main source of finance, followed by SOCB loans. One subsidiary of PetroVietnam also reported it its main source of finance was PVN Finance, PetroVietnam's finance subsidiary. Large investments also required the input of parent companies. Contributions took different forms: direct grants, bank guarantees or loans. The majority of firms in which the GC held a majority share were only required to seek parent approval for the investment expenditures over a certain amount.

Subsidiaries varied substantially in terms of their perceived ability to access capital. Nine reported that access to capital was not a significant constraint on investment (four or five out of five). Three score 'three', and ten one or two. Of these all reported that accessing loans is more difficult or 'the same' (two responses), and collateral is 'more frequently required'. In eight interviews with firms that reported access to capital to be a constraint interviewees reported that banks demanded more collateral and paid more attention to business plans and recent financial performance. One firm in which the GC had divested more than 50% reported that as the GC no longer guaranteed loans it had to rely on its own collateral.

The importance of retained earnings is also highlighted by the reported importance of the depreciation fund. A large shipping company, for example, argued that the depreciation fund was the most important source of investment funds:

> 'After equitisation we have to lower the depreciation rate to make the company more attractive to investors… Profit has no meaning. Key to the development of the firm is depreciation. The Government's minimum rate is 7.6 percent a year. We asked the Government for 29.8 percent a year for the whole fleet. Then we would have a big sum to buy or build other ships and reduce profits. From now on [after equitisation], this will have to change. There will have to be a more reasonable depreciation rate, so dividends exist so we are more attractive to shareholders'.

Another tyre production company pursued a similar policy. Prior to equitisation the company recorded low profits ‘because as an SOE we must pay 32 percent CIT [Corporate Income Tax] to the state, so it is better [to keep the money] and raise the living standards of the staff’. They also deployed a high depreciation rate (and so lower recorded profits) in order to pay off loans as quickly as possible. The interviewee felt the best future strategy would be to continue to declare low profits and issue new shares rather than dividends to existing shareholders as shares were considered to be overvalued.

All subsidiaries were asked to report the ratio of short term to long term liabilities. Ten responded. Of these six reported between 98% and 100% of liabilities were short term. Two reported 44% and 49% and two at 75%. Three firms that subsequently listed had an average of 65%, 83% and 76% short term liabilities between 2008 and 2012.

Subsidiaries of PetroVietnam, Vinashin, Vinatex, Vinacomin and Geruco all reported in interview that the GC guaranteed loans. However, subsidaries of Vinapaco, Vinachem and VEAM claimed they had no support from their GCs, who were thought to be financially weak themselves. Three of the five firms that were listed on the stock market were owned (51%) by Vinachem. After the initial listing none of the three issued further stock. Balance sheet data suggests that the proceeds from the initial sale in all three cases went to paying off short term loans (all three saw a decline in the short term to long term liability ratio and a total fall in liabilities). However, both the short term to long term liability ratio and total liabilities then increased until 2012. The ‘acid ratio’ - the ratio of cash, short term financial investments and short term accounts receivable to short term liabilities - was below one in all three cases. One tyre firm saw an increase in its acid ratio to above one in 2009 as a result of a fall in input costs and rise in output prices[69]. Cashflow statements and changes in balance sheet data suggest fixed capital investments were all financed from retained earnings and loans.

In contrast two subsidiaries of PetroVietnam that were also listed displayed an acid ratio of over one, and cashflow statements suggested investments were partially financed from capital injections from shareholders. In interview both had claimed to have had to remit

69. Provided as an ‘explanation’ for an increase in the firm’s profits on vndirect.com.vn.

90 percent of their profits to PetroVietnam, suggesting they were almost entirely dependent on the GC for finance.

7.2.6. Parent Child Structure

A second form of subsidiary takes the 'parent - child' structure. These firms essentially operate as a holding company with the parent company having full or part ownership of a number of subsidiaries. The parent company in turn is partially owned by the state corporation. The majority of these companies are garments companies under Vinatex, or shipbuilding companies under Vinashin. Others include Viglacera, a glass production company under Vinachem, and Tan Mai, a paper production company, under Vinapaco. These firms are large employers - Viglacera employs approximately 16,000 people, Phong Phu (a garments company) over 17,000, Nha Be (a garments company) 7,000 and Viet Tien (a garments company) 7,500. All reported that there was no capital constraint on investment (scoring it 'five'). The primary source of investment was retained earnings followed by SOCB loans. Viglacera, Phong Phu and Nha Be all listed subsidiaries in the stockmarket. Listed subsidiaries maintained a relatively low acid ratio (under one). Closer analysis of the balance sheets suggests that the low acid ratio is the result of holding low cash balances and no short term financial investments suggesting they can depend on their parent companies for emergency liquidity. Phong Phu, Viglacera and Viet Tien have all published balance sheets since 2010, however they are not disaggregated. For all three acid ratios are around one, and short term liabilities are a high proportion of total liabilities.

There are a number of reasons why these firms took on the parent company model. The first, according to interviewees, lay in the firms' relative success in the 1990s, and in some cases the early 2000s. The GC called on the firm to support ailing GC members so as not to have to fire workers. Most of those interviewed felt that supporting weak firms was in some respects a waste of resources, however, all tended to agree with the manager of Phong Phu, who said: 'it is ethical. When you have a baby, you have to feed it. You cannot let it die'. In doing so these firms took on a parent - child structure, and were able to manage the cash flow of the firms they controlled. The fact that they were called upon to do this points to better quality management. Indeed, interviewees suggested their early achievements learning new technologies or establishing relationships with foreign partners set them apart from other firms, and led to them taking on further responsibilities at the bequest of the state.

The second reason is that firms were successful in areas consistent with Vietnam's comparative advantage, in particular low wage, low technology activities. As such successful firms were likely to generate higher revenues, and so were able to expand by establishing new factories. Shipbuilding companies appear to be an exception. The majority of subsidiaries were established in 2007 following Vinashin's securing an international bond. As explained above, money was distributed to subsidiaries, and many in turn established subsidiaries in unrelated areas. Whether this was a genuine attempt to 'hedge' against potential price movements as one interviewee argued or straightforward 'hollowing out' of state assets is a matter of conjecture (Cheshier and Pincus 2010).

Fourth, the process of equitisation itself, according to the majority of interviewees, provided the firm with greater autonomy. What is striking is that most firms established subsidiaries that specialised in financial investments or real estate investments. Others sought to use excess land to build industrial zones, hotels, or residential areas. Interviewees gave a number of explanations. The first, was that it made sense to use assets available to the firm, particularly land. The second, most clearly articulated by Nha Be, was that the ultimate responsibility of the firm was to generate revenues to satisfy the requirements of the Corporation:

> 'Nha Be diversifies into other services to increase revenue. Vinatex simply pays attention to revenue. Nha Be must maintain and develop the capital for Vinatex. Nha Be must diversify to meet this demand'.

The manager is referring to the fact that the loss of state capital is a punishable offence. However, the manager's comments are supported by another long time manager of the garments company Viet Tien:

> 'The primary business is garments. But the company must stand on its own two feet. Production is the main business but business (trading and small production for trading) is the second leg that depends on opportunities. We started businesses in the 1990s… anything that is allowed by law. Usually [the objective] is to create employment. Trading is to develop and have more revenue...'.

Viet Tien's early ventures included joint ventures with foreign companies seeking a partner to sell products in Vietnam and with domestic suppliers (buttons, linings and polyester) in order to ensure greater quality. They also 'traded' products such as cosmetics and telephones, as well as producing products for the Vietnamese military. Like the manager of Nha Be the manager of Viet Tien argues that the ultimate objective was to meet Vinatex's targets. However, although the targets stem from the Government's growth targets for manufacturing, there appears to be little restriction on which activities actually generate revenue.

> 'Every year to reach GDP growth of seven to eight percent manufacturing growth must be twice the GDP growth rate. Each manufacturing company must reach a growth rate of at least 15 percent year on year. Each industry must assign targets to each company to achieve the growth rate of the industry. So Viet Tien must try to achieve this growth rate. We must expand our business, open new factories etc. We must consider these orders as law.'

The difficulty for garments companies is that although investments in the garments and textiles sector creates employment and generates foreign exchange profits are small, suggesting a further motivation to diversify into new areas. Phong Phu, another of the larger garments companies, and also transformed into a parent child corporation began diversifying outside of textiles and garments in 2003. According to the manager:

> 'The core business is textiles. The other businesses are property and commercial centres. The future strategy is that textiles remains the core business, but we will try to diversify into others. We hope other businesses will account for forty percent of total revenues and textiles sixty percent of total revenues. Other businesses will bring in more profits than textiles. We will take revenues from other businesses to invest in textiles'.

At the time of writing Phong Phu has eight garments and textiles subsidiaries, three joint ventures in related sectors (threads and textiles), majority shares in eleven related joint stock companies, four subsidiaries engaged in real estate and trading activities, shares in fifteen joint stock companies engaged in real estate and investment, shares in four joint stock companies engaged in unrelated activities as diverse as logistics and 'providing services related to aircrafts'[70]. Its investments include holding shares in joint stock banks and investment companies established by other state owned enterprises.

Nam Trieu Shipbuilding Company, a 100 percent limited liability subsidiary of Vinashin, and one of the largest shipyards in Vietnam, has also established over thirty subsidiaries of its own. The majority are in shipbuilding related activities and appear to correspond to the government's stated objective to increase domestic value added in the shipbuilding industry, however, a number of others operate in the tourism, construction and 'investment' sectors.

Each of the 'parent-child' companies has also purchased shares in other domestic companies, joint ventures and joint stock banks. In most cases firms play no managerial role. Their objective is both dividends and an expansion of their portfolio account.

In conclusion, subsidiaries of state owned corporations fall into two broad groups: those that remain single activity firms dependent on the corporation for support with financing and strategy, and those that, as part of the 'transformation process' have assumed the parent-child structure, and who demonstrate a higher degree of financial autonomy.

70. http://www.phongphucorp.com/ accessed 26 June 2012.

7.2.7. Quasi-private SOEs

Another category of firm is the ‘quasi private state owned firm’[71]. These firms are described separately from subsidiary corporations and GCs because, although originally state owned, they were not policy creations (such as the GCs), reported to a state government body, in most cases a People’s Committee (rather than an upper level corporate body) and, as the following paragraphs will suggest, were relatively autonomous. In a number of respects these firms are most similar to the handful of private conglomerates that also have a long history, but for various (mostly unknown) reasons have never been partially or wholly owned by the state. These firms will be described in the next section.

All four firms report that they face no capital constraint and that accessing loans is ‘easier’, although Hanosimex claims that banks now pay more attention. Only FPT is listed on the stockmarket, with a acid ratio of over one, high interest and dividend payments from investments in other companies and banks.

One of the most striking characteristics of these firms is their unusual histories. Hanosimex and Protrade began life as entrepreneurial endeavours. Food Processing Technology (to become Corporation for Financing and Promoting Technology in 1990 and FPT Corporation in 2008) was established in 1988 by the current CEO, and a number of his associates, all of whom had studied Maths and Sciences in Moscow. The company was originally a state owned enterprise under the Ministry of Science of Technology. The interviewee described the company’s movement into software and computers as the result of a chance meeting. The unauthorised version involves the smuggling of computers from Russia to Vietnam (Cheshier 2010). The company’s growth throughout the 1990s was built on its becoming the official distributor of foreign computers and software. From 1997 FPT moved into Telecoms, establishing FPT Telecom and then winning the right to distribute Samsung phones in 2000 and Nokia phones in 2004. In 2003, apparently after a visit to Bangalore, FPT developed FPT software, which after initial teething problems has established itself as a low end regional software producer. In the mid 2000s FPT

71. The emergence of these types of firm is explored in detail in Cheshier (2010)

cemented its ties with Microsoft and Cisco systems and attracted capital investment from Intel Capital and Texas Pacific Group. It also expanded its operations into, to date, eleven countries (FPT 2010). FPT has also invested in a University dedicated to teaching IT related skills and high tech parks. In 2006 FPT listed on the stock market[72]. The corporation is separated into two broad sections: ‘Information Technology and Communications’, and ‘Investment’. The majority of companies are JSCs, and FPT holds a majority share in all but FPT Telecom. On the investment side it holds a minority share in Tien Phong Bank, FPT Securities and FPT Capital, FPT’s ‘fund management arm’ managing nearly USD 200 million. According to the annual report the majority of FPT’s real estate operations are building plant for the company.

In 1982 the founder and current CEO of Protrade[73] borrowed four million VND from the state owned Animal Husbandry company he had worked for since 1976 to establish a rubber processing company. By law he had to establish the company as an SOE, even though he repaid the loan within four years. He then branched into timber, paper and packaging, bottled water and garments, established joint ventures with a number of foreign companies (to establish, amongst other things, a golf course and potentially a horse racing course and a hospital) and merged with a number of domestic firms. Since 1995 Protrade has held thirty percent of a a large foreign distributor of dairy products in Vietnam. Although an SOE, Protrade regards itself as essentially a private company. The CEO claims the state has no right to the company’s assets since he repaid the state loan in 1986, and since then has received no extra state funds or support. Prior to assuming the parent - child model in 2006 Protrade equitised one of its subsidiaries and had to petition the People’s Committee in order to keep the proceeds of the sale that should, in law, have gone to the State.

72. The state share is listed at seven percent, foreign ownership at forty five percent and ‘others’ at forty eight percent. Mr Binh’s share places him as the richest man in Vietnam.

73. Information for Protrade comes from an interview with the CEO and also with the Manager of the garments subsidiary in 2009.

A third company, Cholimex, was in many ways a solution to the economic chaos of the early years of the unified Vietnamese state[74]. Cho Lon, four districts in the centre of HCMC, was prior to 1975 the city's financial and production centre. Most businesses were run and owned by Vietnamese of Chinese ethnicity. According to the Vice Chairman of District 5 People's Committee in the late 1970s and early 1980s:

> 'The HCMC People's Committee came up with the idea for Cholimex because they realised that… manufacturing equipment had no parts, there were no raw materials, new policies were not promoting a market economy, most entrepreneurs from before 1975 had either left or were in re-education camps. So HCMC had no human capital, no equipment and no capital. The People's Committee suggested the reorganisation of companies… and looked to people on the ground. Those left were chinese. District 5 officials acted as a bridge with local entrepreneurs'.[75]

District 5 contributed the equivalent USD 500 thousand from its budget as well as land for factories and office buildings. The company also raised nearly the equivalent amount in gold from private chinese households in the area. Cholimex's task was to leverage its relationships with Chinese suppliers in Singapore, Taiwan and Hong Kong to import goods required for production by local factories. At first Cholimex effectively bartered Vietnamese produce for foreign goods as foreign exchange was in short supply. Cholimex also operated as an intermediary between producers and farmers in South Vietnam, exchanging goods such as beer, sugar and milk for agricultural produce. In 1983 the government decided to clamp down on private activity demonstrated by Cholimex and nationalised the company, buying out the local share holders. Exports would, until 1989, be channelled through a a state trading company. However, the original management remained, and the company expanded its operations upgrading its existing operations and establishing a new garments factory. In 1993 Cholimex was reformed and its various

74. 74. The initial interview was supplemented and confirmed by an interview with an original member of HCMC People's Committee in August 2009.

75. The interview was conducted separately from the UNDP survey.

workshops and factories became independent accounting units subordinate to Cholimex. Over the next nearly two decades the company expanded into commercial services, aquaculture, timber, seafood trading, producing medical equipment (in which Cholimex held 24 percent), electronics assembly, construction and real estate. The company presently holds fourteen subsidiaries, and regards its primary role as 'investment'.

Two further companies, Becamex and Dakruco, are provincial SOEs with particular responsibilities: industrial zone construction and rubber cultivation. Becamex was a small SOE established in 1976 in Binh Duong, a relatively unpopulated province with abundant land and close to HCMC. In the early 1990s Singapore was concerned that its small size and population was constraining its growth and so looked to make investments further afield as part of a strategy of 'regionalization', which first comprised of Malaysia and Indonesia before expanding to include China, Vietnam and India. The ultimate objective was to create 'economic space' for Singapore based companies in lower cost emerging economies, in the process freeing up Singapore for more value added activities. The strategy involved working with foreign governments to build industrial zones with the capacity to house Singaporian firms (Yeoh 2004). The first such park in Vietnam was the Vietnam Singapore Industrial Park (VSIP), a joint-venture between a Singaporean consortium and Becamex. Becamex went on to build either on its own or as a joint venture nine Industrial Parks. It also has interests in a number of real estate projects, including a new town, major infrastructure, as well as shares in a number of companies including a newly established pharmaceutical company. A series of interviews with members of the People's Committee, employees and former employees of Becamex, revealed that the company has great sway in issues such as planning, infrastructure development and FDI attraction in the province. A large proportion of its revenues are derived from rent paid by foreign firms in the industrial zones[76].

The quasi-private firms appear to have fewer ties to the state's industrial plans and the will of local and central government. Although some continue to operate in areas consistent with their original business license interviews revealed that the companies devised their own business strategies. The firms themselves appear to have grown rapidly

76. An account of Dakruco in Binh Duong can be found in (Penrose et al. 2010)

with revenues sourced from distribution licenses and access to foreign investors and land. Protrade was, from establishment, devoted only to those businesses that met the CEO's three rules for investment:

> 'One, pick suitable products with no competition, and especially no competition from FDI. Two, it must be within the financial limits of Protrade. Three, investment must be sufficient to ensure acceptable quality and scale'.

The manager also prided himself on 'never letting an opportunity pass'. Protrade is also an exception in that the company has, arguably, never been reliant on the state. Cholimex, although with a vastly different history to Protrade, is another company whose growth has explicitly been based on establishing factories and firms on the premise that they make money, to the extent that it now regards itself a holding company. Other companies in the survey - Dakruco, Hanosimex - had established similar levels of autonomy. Some, like FPT and Protarde, remained primarily attached to state imposed activities, however, at least according to the interviewee, were not tied to state plans. Others, had, for nearly two decades built portfolios of firms, sometimes at the request of the state, on other occasions based on commercial criteria. The degree to which firms were subservient to state desires varied, and depends in part on the size and the importance of the firm. Becamex and FPT, for example, suggest independence from state interests (the state now only holds seven percent of FPT) based on size and importance. The managers of Protrade and Dakruco implied that actual ownership was still a matter of debate, and would come to a head when, if ever, Protrade would be equitised. For both, the most contentious issue was who had the right to 'state capital' and its proceeds. The interviewees' argument rested on not only ownership rights, but also the assertion that they should receive rewards for their efforts. Cholimex and Hanosimex, on the other hand, operate as if state interests in the company are incidental, although, Hanosimex, at least, suggested it is happy to abide by the wishes of the local people's committees.

FPT's equitisation saw the transfer of shares in the company to, initially, staff, workers and managers, and then to foreign buyers and others following its listing on the HCMC stock market. Although senior managers did not receive the initial proceeds - all of which were transferred to the central budget - they have benefited from the sale of shares and increased net worth following the period of stock market inflation and FPT's position as one of the more stable shares. The majority of quasi-private companies have grown on the back of relatively stable revenue streams generated by state allocated rents. It is probable that there exist, or at least have existed, illegal payments designed to acquire or keep access to such rents. There are also, close personal relationships between senior managers and powerful members of the Government or Party. Cheshier (2010), for example, points to the marriage between the CEO of FPT and the daughter of General Vo Nguyen Giap. Interviewees hinted at a close relationship between the CEO of Becamex and senior Party officials in both HCMC and Hanoi. Accounts of systems of patronage in Vietnam suggest that it is unlikely that such firms, and their managers, could not have achieved what they have achieved without 'playing the game'[77].

A history of success has also helped firms access capital. In explaining why 'collateral was less frequently required' the manager of Cholimex explained:

> '...banks can see our success on annual audited financial reports, and can see the increase in capital and the expansion of our business. [Because of our] reputation we do not require collateral.'

Protrade and Hanosimex have also developed relationships with SOCBs. However, the predominant source of investment capital for all firms is retained earnings, with bank loans more often used for working capital. FPT and Becamex have also turned to the stock market. FPT listed in 2008. Becamex has listed two of its subsidiary construction companies. A further source of finance is joint ventures with foreign investors, a trend throughout the 1990s, and continuing today. All companies have and continue to diversify and purchase shares of financial institutions and other Vietnamese firms. The majority of FPT's investments are conducted by its investment subsidiary. It also owns a share of

77. See, for example, Gainsborough (2010) and Fforde (2010).

Tien Phong Bank. Becamex also holds shares in a number of firms. Dakruco has expanded into at least thirty separate areas[78].

7.2.8. Private Companies

The fifth category is private companies. Six of the surveyed firms are in the original 'Top 200'. A seventh and eighth, Cat Thai and Fuvi, are included as representative of relatively successful medium to large size private firms (both employ approximately 400 people). The majority of companies were established in the early 1990s. In the Top 200 survey, one exception, Bitis, a footwear company, was established in 1982. Three companies are seafood producers, two are parts suppliers and two plastic moulding companies.

Capital is not a constraint for all but one of the larger firms. Sources of finance are loans from Joint Stock Banks (ranked as number one for five companies and two for three) and retained earnings. Short term liabilities comprise 95% to 100% of total liabilities. All reported that it was easier to access bank loans as there were more banks willing to lend, however collateral was always required. Two seafood companies listed on the HCMC stock exchange. Initial proceeds were used to pay off short term loans, although both continue to have a low acid ratio. One issued new stock on two occasions. Balance sheet data suggests the proceeds were used to pay off loans.

Minh Phu

One such firm, Minh Phu, a seafood company, began operations in 1988 as an agent for an SOE 'as the government didn't encourage private enterprises'. Between 1988 and 1992 the company 'hired a factory' and 'assigned the SOE to sell its products'. It is likely that Minh Phu is an example of SOE managers using state assets for personal gain. The company was officially established in 1992 following the new Law on Enterprises. According to the manager, there then followed a period of difficulty and confusion as the company still had to rely on provincial SOEs to manage exports as well as interference from SOEs in the province. The company built a number of processing factories in the late 1990s and 2000s, became a LLC in 2002 and a JSC in 2006. In 2004 Minh Phu

78. Information published on the company's website, and is available on request.

opened a subsidiary in the US to distribute its products. Minh Phu currently owns nine subsidiaries in seafood production[79].

In interview the manager expressed a desire to diversify outside of seafood, ideally into 'real estate, ports, security, banking and an investment fund'. Apparently other shareholders argued that Minh Phu should continue to focus on their core capabilities ('Minh Phu is good at seafood so we must focus on this'). One concern was increased and apparently unfair competition from SOEs. The manager argued that the state invested the proceeds from equitisation into SOEs, 'who didn't have to pay interest'. He went on: 'SOEs don't have to make a profit, only break even. Private companies must make high profits to pay interest rates to the banks, satisfy shareholders and pay dividends. That's why SOEs can buy [inputs] at high prices and sell low… [However], since 2007 all SOEs have become JSCs. Competitive pressures will reduce and [we] will be able to buy inputs at reasonable prices and sell final products at low prices'. Minh Phu felt it was easier to get loans, 'as there were more banks competing for clients, especially high prestige companies'. Some banks, particularly those who were unfamiliar with the company, required collateral, however, the company's reputation meant that loans were relatively easy to come by without collateral. The primary source of investment capital is retained earnings as interest rates are high for long term loans. Occasionally, however, Minh Phu turns over short term loans. Minh Phu did list in 2008 and its balance sheet demonstrates large investments in real estate and short term financial assets (around ten percent of total assets), particularly in 2008 and 2009 suggesting the company's manager eventually got his way.

Cat Thai

Cat Thai is a plastics injection moulding company that supplies foreign (predominantly Japanese) manufacturers in Vietnam. The company was established in 1999 by the current director who established the company as a 29 year old chemical engineer who had already amassed some experience working for Mitsubishi. In interview he claimed he had at first tried to connect foreign clients looking for Vietnamese suppliers with state owned

79. http://minhphu.com/quan-he-co-dong.

plastics companies. However, they ‘were not able to make decisions’ so he decided to establish his own company. At first Cat Thai lost money due to inexperience (a mistake producing products for a large multinational company cost USD 50,000). However, over time he managed to improve, purchase new machines and attract new customers. In 2003 Cat Thai moved to a larger location. In 2006 they formed Duy Anh Engineering Technologies in a joint venture with Okumura Corporation, a Japanese construction company.

The history of the company’s growth is a typical story of incremental growth. According to the manager and founder the key to the company’s growth was learning:

> ‘We need to learn from customers. Some people think it is easy to make [our products], but going from plastic parts for a refrigerator to making a refrigerator is very difficult. Our customers spend lots of money on training… new suppliers, but lots go bankrupt. Chasing stupid ideas means we lose… We can’t jump ahead. We can’t buy expensive and special machines and just use them… They are easy to get but hard to use. We have to know the machines, must feel the machines, know if they are sick, how they are working. Buying the machine and owning the machine are different [things].’

The company tried to accelerate the learning process by trying to make more sophisticated products, and ‘learning from our mistakes’. Banks did not help the process. According to the interviewee it was ‘very difficult to get money from the bank’. The bank required collateral and ‘sent inexperienced young people to evaluate [possible assets to be used as] collateral… We could only get up to seventy percent of the value’. The banks wanted the company to first invest in one machine and then once the company showed a profit to purchase a second. This was ‘too slow’. Ideally Cat Thai would have purchased ‘ten machines at one time’. This was a particular problem with the joint venture, Duy Anh, which despite the presence of the Japanese partner could not access enough bank credit. The solution was for Cat Thai to buy the machines and transfer them to Duy Anh.

Cat Thai also appeared as a case study for a Japanese study into supporting industries in Vietnam:

> ‘Cat Thai’s managing director also notes that, while business inquiries from MNCs are increasing rapidly, the most serious problem was difficulty in raising enough capital from local banks to expand production capacity. He laments that banks lack the understanding of how essential it is for MNCs to purchase high-quality plastic parts of which there is an acute shortage in Vietnam, and that his factory can supply them. Banks do not appreciate the value of a large number of long-term supply contracts between Cat Thai and MNCs and are unwilling to finance the purchase of expensive machines. But he believes that, as long as high standards are maintained, the business will be very secure and prosperous.’
>
> (Mori and Ohno 2004, p.21)

Initial start-up capital was the manager’s own savings and the sale of family land. Currently the main source of investment capital is retained earnings. The state and SOEs enter the story primarily as a constraint on firm growth. At one point in the interview the manager makes explicit reference to his independence:

> ‘I have no ’umbrella’ in the government. We only work with our own knowledge and heart. We do our best, even the things we don’t want to do.’

Fuvi

Fuvi was established in 1994 by former employees of a state-owned plastics company. Like Cat Thai their growth has been based on taking on larger orders of increasing sophistication, primarily from Japanese manufacturers operating in Vietnam:

> ‘In the first year customers were testing our capacity. At the beginning we bought only small CNC (Computer Numerical

> Control) machines so we could learn to use them. Once we were capable we would buy bigger machines.'

The company bought one new machine every year, and invested in management and technology 'rather than investing horizontally'. However, Fuvi was concerned that they were relying only on customer orders, which could change quickly. For example, motorbike companies required new moulds only when they had new models, which might be 'once or twice a year or not at all'. Their diversification strategy was based on a conversation the director had with a friend working in the construction industry:

> '[the friend] was complaining about having to dispose of truck loads of wooden form work. It was a waste of money. So we saw the opportunity to… develop plastic form work'.

It took the company over six years to develop the expertise and purchase the equipment necessary to manage large quantities of plastic and produce large enough moulds. The company worked closely with its Japanese suppliers in order to develop the required capabilities. At the time of interview the company's strategy was described thus:

> 'We don't rely on mould production for profits. We have to go into product diversification. Producing moulds helps to train workers and build expertise. We prefer to produce difficult moulds rather than cheap moulds at large volume because it is higher value and we develop expertise. We will try to expand in plastic form work production[80], which is becoming a strategic product [and so subject to tax reductions]. Some profit from the plastic form work will be used to develop the mould area because we want to be competitive in terms of making difficult and large moulds. For example, for cars, aircraft, ships, construction etc.'

80. Fuvi's formwork products are used to set concrete in the construction of large buildings. The plastic panels can be assembled rapidly, are extremely durable, cheap and easily stored and cleans. Fuvi even offers to recycle the panels once they are no longer needed.

Fuvi also exports to a number of companies around the region, and has established a distribution office in Thailand. Between 2007 and 2011, however, its copyrighted form work products have become the company's primary activity, and are ubiquitous in HCMC's many construction sites.

Bitis

Bitis has a very different history. It was established in 1982 as workshop producing sandals. As rubber was the only input used by Bitis produced in Vietnam, the director was forced to smuggle the majority of inputs into the country. The company began by producing footwear for export to the Soviet Union as part of a programme to repay Soviet loans to Vietnam. A state owned organisation managed exports on behalf of Bitis. In 1986 the company launched its own brand and turned its attention to the domestic market and to Eastern Europe. In 1989 the company became the first private company to win an import and export license. It then branched into France, Germany and Spain and slowly began to build its operations and brand in Vietnam. In 1990 it upgraded its factory with Taiwanese technology, formed a joint venture with a Taiwanese firm in 1991, transformed into a LLC in 1992, established an office in the United States in 1994, and branched into ladies shows and leather footwear in 1995. It has continued to invest in new technology, including technology from Korea in 1996 and Italy in 2006. It has also continued to expand across the world, including China and South East Asia. In 2002 Bitis began to expand into real estate, hotel, tourism and office space rental. Of particular interest and indicative of the firm's reach it established 'Trade Centres' at the border with Cambodia in the Central Highlands, and Lao Cai on the Chinese border.

Unsurprisingly, each of the case studies mentions difficulties engaging in competition with SOEs and establishing the company. All the examples was established in the 1980s or the 1990s, and so were affected by legislation affecting issues such as international trade, and, to an extent, access to finance. Of the firms surveyed only Cat Thai and Utxi have no clear connections to the state sector. Minh Phu initially made use of an SOE's ability to trade. Fuvi was established by ex employees of an SOE. It is improbable that Bitis had not forged and benefitted from close association with government officials. And like Cholimex its early years were closely associated with the efforts of the state to rebuild the economy, and repay the Soviet Union.

All firms were established with entrepreneur's own capital - either savings, loans from family and friends or the sale of family assets. In all cases the entrepreneurs based the firm on capabilities they had previously learned. Only Bitis benefitted from a state allocated rent, in this case trade licenses. In this regard it closely resembles FPT and other quasi-private SOEs. Even so, like the rest of the sample, the company's growth was financed from retained earnings. In most of the interviews entrepreneurs described the balance they had to make between managing cash flow and investing beyond their capacity and capabilities. Both banks and potential foreign customers were clearly wary of firms' capacity to meet orders. This explains entrepreneurs' emphasis on the learning process, and also on the need to move into progressively more sophisticated production, in the process generating greater revenues, attracting more customers and potentially providing the basis for diversification into new products.

Firms were limited in their investments by the reluctance of banks to provide adequate loans. Banks required collateral, although a number of interviewees did suggest that over time once banks were satisfied with the firms' ability to repay loans and had developed a knowledge of the business then it was easier to access credit.

Firms were concerned about basing a business on unreliable sources of revenue. The manager of Minh Phu, for example, expressed his own opinion that the company should diversify into real estate and other investments. The manager of Fuvi described the necessity to develop the company's own products, which could, if necessary, then fund further investments in the main plastic moulding side of the business. The manager of Minh Phu pointed to the potential losses if quality fell short of customer's requirements.

Ultimately, these five case studies are examples of 'organic growth', in which in the absence of outside financing and in a difficult, often hostile environment, entrepreneurs have had to build capabilities and reinvest retained earnings. Each of the companies makes standard, easily copied, products, and only one, Fuvi, has managed to establish a premium product of its own. Recalling the argument of Chapter 3 these firms developed strategies to ensure to the best of their ability a constant flow of revenues. The larger firms were happy to diversify into new areas, including real estate and financial assets. They were also less dependent on the expansion of their core business for growth and increased revenues.

7.3. Listed firms

This section will present the findings first of the analysis of the available balance sheets and cash flow statements of original surveyed firms listed on the Hanoi and HCMC stock exchanges and then of sixty-four firms listed in 2007 and 2008 on the Hanoi Stock Exchange.

Methodology

The quarterly balance sheets and annual cash statements of the sixty-four non-financial firms that listed in 2007 and 2008 on the Hanoi Stock exchange were accessed using the website www.vndirect.com.vn. Quarterly cash flow statements are not made available. Although it is easier to extract the data from annual balance sheets, annual balance sheets tend only to report firms' financial status in Quarter 4 of each year[81]. Examination of quarterly data suggests that in many cases such annual data misrepresents the position of the company, particularly in regard to the objectives of this chapter. For instance, a company that issues stock in Quarter 4 may display an extraordinary cash balance for that year. By Quarter 1 of the following year the cash may have been used to pay off debt or financed some investment in fixed or other assets. It would be inaccurate, therefore, to conclude that the firm typically held large cash balances, or that a high ratio of current to total assets signified a new strategy for the firm.

The purpose of the study was to determine how firms used the proceeds from stock issues, in particular: were the proceeds used to finance or fund investments?; were the proceeds held as cash or short term assets, and if so was this temporary or did it appear to be an attempt to raise the acid ratio?; were the proceeds used to reduce the debt burden?;

81. Available and easily accessed on datastream, for example.

and finally is there evidence that firms used the proceeds to diversify into long term financial assets or real estate?

The following methodology was followed for each firm. First, it was determined when firms issued stock and how much was collected. Cash flow statements reported how much was collected in any given year. For each company www.vndirect.com.vn reported in which quarter stock was issued. Available quarterly balance sheet data was then transferred to Excel. For each quarter the 'acid ratio' - cash and cash equivalents, short term financial investments and short term accounts receivable divided by current liabilities - was calculated, as was the proportion of short term to long term liabilities. The acid ratio is a commonly used measure of a firm's ability to meet its current obligations. The proportion of short term liabilities of total liabilities provides an indication of whether firms are able to reduce their dependency on short term debt for working and investment capital. These ratios along with changes in fixed assets and the proportion of long term financial assets (including investments in joint stock companies) and real estate to total assets were then graphed to identify trends. The balance sheet was then examined to determine the uses of the proceeds of stock issues. Unfortunately, the absence of quarterly cash flow data means it is difficult to identify with complete accuracy the uses of the proceeds, particularly for small amounts. However, in many instances stock issues coincided with significant changes in one or more stocks. For example, there might be a significant fall in short term loans, a large increase in fixed assets or holdings in other companies, or in cash balances. Vndirect.com.vn also publishes information released by the company, and in a number of cases companies reported new investments or explained unusual changes in recorded profits or revenues.

Surveyed Firms

Of the original 'Top 200' firms twelve firms subsequently listed on the Hanoi or HCMC stock exchanges. Six firms opted to list subsidiaries (Viglacera listed four firms, Vinaconex eight, Lilama, eight, Phonh Phu, two, Nha Be, one, Dakruco, two). Of these the subsidiaries held low cash balances and maintained 'acid ratios' well below one.

Moreover, subsidiaries tended not to hold long term financial assets or real estate, and short term liabilities dominated total liabilities (96% and higher).

Three other companies (Dak Lak, Lam Son and FPT) also listed, and analysis of their balance sheets suggests substantial differences compared to the subsidiaries. Acid ratios are consistently above one, and annual cash flow statements report substantial interest and dividend payments. Moreover, stock listings appear to have served to raise the acid ratio by either increasing the proportion of current assets or reducing the short term debt burden.

Firms that were already diversified into two or more distinct activities and so meet the definition of conglomerate have continued to diversify. FPT, Nha Be, Cholimex, Viet Tien, Phong Phu and Protrade have all moved into new and disparate areas. However, as balance sheets, income and cash flow statements are all aggregated it is impossible to determine the financial breakdown of each company.

As mentioned above two seafood companies, Minh Phu and Cataco, diversified into real estate and increased the ratio of long term to total assets to secure more diversified cashflow revenues. Dividends and interest payments from Minh Phu's investments[82], for example, secured a return of between 8% and 20% of total pre-tax profits between 2009 and 2011.

Non-Financial Firms listed in 2007 and 2008

To look more closely at the uses firms made of the proceeds from listing stock the quarterly balance sheets and annual cash flow statements of sixty-four firms that listed on the Hanoi Stock Exchange 2007 or 2008 were analysed.As might be expected the uses of the proceeds from stock issues are often ambiguous. In some instances it is far from clear how funds have been used, and in others funds have been used in a variety of ways. Studart and Davidson point to the importance of stock issues in 'funding' investments, which in practise might result in a reduced burden of short term debt and higher acid ratios as either firms are able to hold more in current assets or lower debt. Of the sixty-

82. Available at vndirect.com.vn

four firms only fourteen had an acid ratio consistently above one. Of these nine were majority owned by a state organisation, and four minority owned by the state (Table 35). Seven firms were subsidiaries of larger (state owned) firms.

Table 35: Proportion of Firms with Acid Ratios above 1 by Ownership

Ownership	Acid ratio above 1
Subsidiary	26%
Majority State	25%
Minority State	25%
Private	8%

Source: Vndirect.com.vn, own calculations

Table 36: Proportion of Firms with Acid ratio over 1 by Size (Charter Capital)

Charter Capital (Billion VND)	Acid ratio above 1
Under 20	0%
21-50	19%
51-100	27%
101-200	13%
200+	38%

Source: Vndirect.com.vn, own calculations

Table 37 and Table 38 present the uses of proceeds from stock issues. Cases where it is impossible to determine the uses of stock have been excluded. The tables recor the percentage of total issues, which is higher than the total number of firms as some firms issued stock more than once. The two tables clearly demonstrate that financing fixed capital investments is not the only use of funds, and that stock issues are used by many firms to improve the firm's liquidity position by either holding cash or short term financial assets or long term financial assets.

Of the seven clear instances of the proceeds of a stock issuance channelled to long term investments two firms had charter capital of just over 50 billion VND, one of 3,000 billion VND and one of 4,400 billion VND. The remaining four firms were over 150 billion VND. Three firms had an average of between one third and one half of long term and short term non-fixed assets as a proportion of total assets. All three also received a significant return from dividends and interest payments from their investments. Three firms invested in joint-stock companies, the remainder in undefined 'long term financial assets' or real estate.

Nevertheless, only two firms with between 40% and 50% of non-fixed assets as a proportion of total assets could be regarded as coming close to being ‘overcapitalised’. However, even these companies did not have an acid ratio of significantly more than one, and two firms with a high proportion of long term assets had an acid ratio of slightly below one.

Table 37: Uses of stock issues by firm size (Charter capital billions)

	Under 20	21-50	51-100	101-200	200+	Total
Finance	0%	33%	35%	33%	40%	35%
Funding	0%	20%	23%	13%	20%	19%
ST	0%	20%	19%	27%	13%	19%
LT	0%	0%	6%	7%	27%	9%
Pay Off loans	100%	27%	16%	20%	0%	17%
Total Non-financing Uses	100%	47%	42%	53%	40%	45%

Source: Vndirect.com.vn, own calculations

Table 38: Uses of stock issues by firm ownership (Charter capital billions)

	State Maj	State Min	Private	Subsidiaries
Pay off Loans	20%	4%	19%	19%
Held in ST	10%	23%	31%	15%
Finance Investment	35%	31%	19%	35%
Fund Investment	25%	19%	0%	23%
LT financial Investment	10%	23%	31%	8%
Total Non-financing Uses	40%	50%	81%	42%

Source: Vndirect.com.vn, own calculations

In terms of ownership, subsidiaries and firms with a majority state holding (between which there is substantial overlap) tended to be less likely to hold the proceeds from stock issues as long term or short term assets, and more likely to use the proceeds to invest in or fund fixed capital investments.

Finally, there is little indication that firms are replacing short term loans with long term loans. The average ratio of short term to long term liabilities was 0.81. However, only thirteen firms had a ratio of below 0.65, and 23 had a ratio of above 0.9.

Table 39: Short term to Long Term Liabilities

Firm Size (charter capital (Bil)	ST/ LT ratio
All	0.81
U20	0.75
21-50	0.85
51-100	0.85
101-200	0.76
200+	0.75

Source: Vndirect.com.vn, own calculations

In conclusion it appears that, at least for the sampled firms, short term liabilities remain high as a proportion of total liabilities, and few firms are able to cover current liabilities with current assets. As a result many firms use the opportunity to issue stock to improve their liquidity position, either by funding investments, paying off loans or holding the proceeds as cash or financial assets. Larger firms that hold more long term financial assets report higher incomes from dividends and interest payments. Subsidiaries (of unlisted firms) are more likely to use stock issues to finance fixed asset investments.

7.4. Conclusion

This Chapter sought to determine how different firms responded to financial development in Vietnam using case studies, survey data, secondary sources and analysis of balance sheets of firms listed on the Hanoi Stock Exchange.

Building on the discussion in Chapter 4 it distinguished between firms that adopted the conglomerate form (operated in different and distinct sectors) and those with one main activity. Given the importance of the state owned sector in Vietnam it also distinguished between state firms (and then between members of GCs and those attached to other state bodies) and private firms.

On the whole the Chapter found that distinguishing between firms in this manner helped shed some light on financial behaviour, however, there was substantial difference between firms within categories. GCs differed in terms of size, importance to Government economic strategy and also in access to extraordinary sources of finance for their members (particularly bonds). GCs played an important role for many subsidiaries in guaranteeing loans, managing finance within the group via a designated financial company, which also, in some cases, sought to generate extra revenues through investments in asset markets.

A relatively new development is the emergence of parent-child structures among subsidiaries of GCs. Although such firms continue to operate in their traditional areas they are diversifying in order to generate profits and alternative sources of cash flow. The emphasis on real estate and financial investments suggests that strategies have, in part, been influenced by developments in the financial sector and also the growth of asset markets. In some cases, particularly, the ship building industry, finding alternative sources of cash was essential if firms were to meet the objectives set them by the GC and Government industrial strategies.

By helping to provide domestic and international sales outlets GCs were also able to help reduce risks inherent in their subsidiaries' primary activities. Attempts to develop domestic industry through generating higher value added activities should in principle serve a similar purpose. Similarly, efforts such as those by Vinatex to improve coordination between firms by advising firms against duplicating investment projects served to reduce investment risks.

The balance sheets of subsidiaries listed on Vietnamese stock exchanges also suggested that GCs played a significant role in the financial lives of firms. Low acid ratios were primarily the result of relatively small holdings of current assets. Moreover, subsidiaries tended not to invest in non-productive assets, a strategy followed by a number of other firms.

These examples of the ways in which GCs' financial support for their subsidiaries has changed also point to the impact of developments in the financial sector and other asset markets. In the 1990s GCs either directly subsidised ailing firms, or called on successful firms to support weaker firms both financially and by providing managerial expertise. The predominance of non-performing loans in the banking system also suggested that SOCBs played an important if implicit role in firms' attempts to manage liquidity. The findings in this chapter suggest that both GCs and some of their subsidiaries are adopting more market orientated strategies, and are actively responding to developments in financial markets.

Financial development has had a number of impacts on Vietnamese firms. Balance sheet analysis suggests that short term loans remain a significant source of investment finance and working capital. Long term loans remain a small proportion of total liabilities. A number of firms pointed to the increase in the number of banks and so potential sources of finance. Interviewees also suggested that banks were effectively competing to provide loans to the larger more reliable firms. Firms also reported that as banks were more insistent on collateral it was harder to access loans than in the past, particularly if the firm lacked the required assets or long term relationship with a bank. The experiences of smaller private firms illustrate the difficulties firms face if they lack the means to access large loans. Firms both lack the financing they need, and are more vulnerable as they depend on a single source of revenues. Attempts to build portfolio accounts by the larger parent-child firms and single activity private firms suggest that capital market developments can provide firms with the means to manage risk.

As expected many firms make use of the stock market to fund investments or to improve their liquidity. Nevertheless, it is striking how low acid ratios are for most firms. The vast majority of those analysed in Section 7.3 cannot cover current liabilities with current assets.

The observation that larger firms look to hold shares in other joint stock companies, ‘long term financial assets’ and even banks also informs the flow of funds analysis of the previous chapter, suggesting more complex flows between and within units in the ‘private sector’. There are increasing intra firm transfers as funds are moved between subsidiaries of emerging business groups and, to an extent, General Corporations. From the perspective of the state the management of liquidity has, on the whole, passed to the firms themselves. State owned firms and groups are expected to remain true to their ‘core activities’ as determined by state policy, but also to generate revenues by any means possible. In a sense this suggests little has changed, other than the formalisation of existing firm diversification strategies. However, there is some evidence that with the development of asset markets in Vietnam firms are able to manage liquidity in more conventional ways.

8.

Chapter 8: Discussion and Conclusion

This thesis has presented an original analysis of the firm in economic development as a firm that manages a balance sheet from which cash flow may be generated in the usual income and expenditure way that is common to most theories of the firm, but also through balance sheet operations designed also to maintain the liquidity of the firm. This is based on the work of Kalecki, Minsky and Steindl and extends the post-Keynesian understanding of the firm both to take account of balance sheet management, and to apply it to firms emerging in a developing country in the transition from a centrally planned economy. This chapter summarises the applications of the approach to Vietnam and concludes with a discussion of the efficacy of the approach for our understanding of financial development.

8.1. The Balance Sheet Approach in Vietnam

The thesis identified three periods since 1991 in Vietnam, characterised by different institutional structures and stances with capital flows and foreign direct investment. The first, from 1991, until, approximately 1998/ 1999 saw an economy dominated by the state sector, and in which establishing and growing private firms faced regulatory difficulties as well as difficulties accessing credit from the banking system. The second saw a downturn in foreign investment and capital flows, reform of the state owned sector, some liberalisation of the financial and banking sector as well as liberalisation of the private sector. The third, following accession to the WTO saw further liberalisation of the state sector and the private sector, as well as the banking sector and financial markets. Foreign direct and indirect inflows increased significantly.

8.1.1. Period I

8.1.1.1. Private Sector

Throughout the 1990s private sector investment was financed predominantly by retained earnings. Access to bank credit was limited for a number of reasons, and equity markets were effectively non-existent. Many firms were small household enterprises. The majority relied on the entrepreneur's own savings, and the savings of family and friends for investment. Although there is no enterprise survey data from the period it is likely that the private sector was close to that of the early 2000s. Profit margins were low, as were investments. As a result, firms struggled to make large investments. They lacked collateral and would have had few funding opportunities. Nevertheless, as they faced significant operational risks, it is likely they held relatively high cash balances as a source of liquidity. Low levels of retained earnings, an absence of funding opportunities and the need for high levels of liquidity meant overall investment was low.

The case studies of Chapter 7 suggest that a number of private entrepreneurs managed to use savings and expertise accumulated whilst with working in the state sector. These firms, however, tended to opt for labour intensive sectors with low capital costs.

The private sector in the 1990s closely resembled that described in Chapter 4, although rather than risk long term and debilitating indebtedness (which it was largely denied due to difficulties accessing outside finance), investments tended to be small and risk averse. The availability of funds for reinvestment would have depended on entrepreneurial savings and the ability of the firm to generate retained earnings through its primary (and, likely, only) income account.

8.1.1.2. State Owned Sector

Like the private sector the state sector also relied primarily on retained earnings. However, a privileged role in the economy meant profit margins were relatively high. SOEs also had access to credit extended by state owned banks and other sources of policy lending and subsidy. The majority of foreign direct investment was also channelled to the state owned sector, providing a further source of funds and foreign exchange.

Even so bank credit as a proportion of GDP was relatively low, and the equitisation process was slow. Investment finance was, therefore, predominantly sourced from a revolving fund of firm savings.

There were few, if any, opportunities to formally fund investments - that is exchange long term for short term debt. However, as firms were required to undertake investments as prescribed in relevant industrial plans the level of investment was only loosely related to the firm's ability to repay it and associated risks. Moreover, SOEs had other responsibilities (policy burdens) providing further demands on cash flow.

The high proportion of non-performing loans in the banking system suggests that the state played a funding role, ensuring investments were carried out - thus adding to general demand and also providing further investible funds in the form of profits that also accrued to the state sector - and that firms that could not meet their commitments were not forced into insolvency.

Those firms that proved difficult or impossible to run as going concerns were, if the social need was deemed sufficiently important, placed under the responsibility of more successful firms.

8.1.1.3. Quasi-Private SOEs

Although strictly speaking state owned firms, these firms were established with a combination of entrepreneurial capital and state finance. The strategies they adopted depended on the degree to which they were beholden to a plan. Of the firms discussed in Chapter 7, Protrade, for example, seemed to have relatively free reign. Becamex, on the other hand, grew as a result of its involvement in the construction of industrial zones. For most of the 1990s it was a small and insignificant firm.

Most investments were relatively small and in sectors that, as one manager admitted, had little competition, required little capital and provided a low level of risk. The nature of some business activities and the close relationship with the state suggested that the primary source of income was a state provided rent - either in the form of a distribution license, responsibility for a particular state policy or export opportunity. Such firms tended to expand by diversifying into low risk areas. There was little need for funding, and capital intensive investments had the support and banking of the state. Diversified sources of cash flow ensured liquidity.

8.1.2. Period II

8.1.2.1. The Private Sector

Developments in the private sector stem chiefly from a more liberal and supportive environment, and improved relations with the banking sector. As a result there was rapid growth in the number of private firms - particularly in ‘private firms’ and ‘private limited liability companies’. This is also reflected in a greater share of turnover, and slight increases in the size of firm (in terms of total assets), as well as in average turnover. Even so, available data suggests there were few substantial differences in terms of financing, funding and liquidity management. Finance remained predominantly retained earnings supplemented by informal sources (essentially, household savings) with some access to bank credit. As bank loans remained short term and tied to collateral capital intensive investments were generally beyond the majority of firms. There remained few funding opportunities, were firms willing and able to make large scale loans.

Although there was an increase in private limited liability companies and joint stock companies these too remained small and, debt to equity ratios were approximately constant. All categories of private sector firm tended to rely on retained earnings, and as a sector, had little opportunity or desire to go into deficit. Low profit margins suggest that, as in Period I investments, again predominantly in the state sector, return to the state sector.

Figure 26 also suggested that current assets, as a proportion of liabilities, was higher than in the state sector, and higher for private and private limited liability companies than for joint stock companies. As well as demonstrating the relative lack of long term fixed capital investments the ratio may also support the observation that smaller firms tend to hold a greater proportion of liquid assets, which might otherwise be utilised in fixed asset investments.

Table 15 suggests that some portion of the profits accruing to the private sector stems from greater productive efficiency. Revenues as a proportion of both labour and capital are higher than for the state sector (although the state sector does make more capital intensive investments).

8.1.2.2. State Sector and Quasi-Private SOEs

Throughout Period II the state sector underwent restructuring, primarily through the liquidation or equitisation of firms. There were, however, few changes in key indicators before 2005/6, and the stock market remained small and capital inflows low suggesting that, although there were gains in efficiency as well as in the autonomy of a number of firms the financial strategies remained similar to those in the 1990s. One interesting development is the reduced net deficit with the state sector (bank credit and onlending) between 2004 and 2006. Although onlending declined slightly, so did tax receipts (as firms were equitised or liquidated) and bank credit increased. At the same time profit margins for the sector as a whole increased, as apparently did overall profits to the sector. Profit rates appear to have seen little change, although average profits did increase suggesting the state divested itself of weaker firms and the remaining state sector may have reaped in profits investments financed from increased bank credit and proceeds from an accelerating equitisation programme.

With regard to quasi-private SOEs the period up until WTO accession appears to be broadly similar to the 1990s.

8.1.3. Period III

8.1.3.1. Private Sector

The non-state sector as a whole experienced a savings deficit that increased significantly. Breaking down the sector suggests that only the ‘private’ sector saw a significant change in its liability to equity ratio, as it benefitted from a more accommodating banking regime. By definition it was less likely to turn to outside sources of equity. Of the different non-state categories the ‘private’ sector experienced the smallest rise in the savings deficit. Table 15 suggests that new firms remained small. The findings in Section 6.4.1 suggest further that bank loans were linked to collateral, and that smaller firms continued to hold larger cash balances. Even so, there are some indications that private firms held a lower proportion of current assets. Private limited liability companies saw an increase in equity over capital, which seems to have corresponded with a larger average size and an increase in levels of investment, although there was no commensurate increase in profits (although profit rates did rise marginally). Equity was likely sourced from household savings. Firms with state capital saw a significant fall in the liabilities to equity ratio, attributable to equitisation. This was translated into a higher level of investment, largely responsible for the increase in the non-state sector deficit. Joint-stock firms without state capital, on the other hand whilst increasing in average size experienced only a slight increase in their savings deficit, and a small downward change in their liabilities to equity ratio.

The increasing number of private firms listed on the stock exchange and the case studies in Chapter 7 suggest that private firms are finding the means to fund investment and develop portfolio accounts. However, smaller private firms remain virtually untouched by recent developments. The World Bank surveys discussed in Section 6.4.1 suggest that smaller firms rely on retained earnings, hold large cash balances, and, despite a more liberal and market orientated banking system are limited in their access to credit by the availability of collateral.

8.1.3.2. SOE Sector

The impact of developments in Period III on the state sector is difficult to discern, given reform of the state sector itself is integral to institutional developments and financial flows.

In terms of financing SOEs have benefitted from increased credit, both from SOCBs and JSBs. Credit growth, channelled through households, but probably more significantly both private and state owned enterprises combined with large inflows of foreign saving also effectively recapitalised equitised SOEs in OTC and stock market transactions. Joint-stock companies with state capital grew significantly in terms of value of assets, although in relation to joint-stock companies without state capital the savings deficit appears to have been smaller.

There may also have been developments in funding behaviour. Section 7.3 suggests that a number of firms used equity issues to replace debt used to finance fixed investments. However, the evidence is by no means conclusive.

Others engaged in the development and manipulation of their portfolio accounts, taking advantage of what were effectively inflated capital markets. As one interviewee suggested as shipbuilding firms were unable to equitise they had to rely on their income account and debt to manage cash flow. The ratio of current assets to liabilities backs other accounts of the difficulties Vinshin members had in meeting their liabilities. Vinashin itself established a subsidiary responsible for both managing the proceeds of bond sales as well as managing an investment fund to provide extra sources of cash flow. Subsidiaries also diversified and themselves invested in real estate markets and equity. Other GCs also established finance companies intended to manage a portfolio of liquid investments that established a source of cashflow.

The predicament of those SOEs unable to either access equity or build a portfolio of liquid assets is perhaps best illustrated by the case studies of the larger and more successful garments firms. These, able to recapitalise via equity markets looked to diversify out of garments to areas with greater returns, and also to invest in asset markets. Such firms also provide a useful comparator to the smaller private firms also described in Chapter 7. These firms were unable to access the bank credit they required for the size of investments desired as they did not possess the level of collateral by banks. It is an easy step to imagine the access a manager would have if part of a larger firm.

Chapter 4 also suggested that firms might become overcapitalised, particularly in times of asset market inflation. The analysis in Section 7.4 suggests that a number of firms did indeed use proceeds from equity issues to create and manage a portfolio of current assets. In some instances it is possible that in holding short term assets for a prolonged period of time the firm was simply waiting until the time to put them to use.

In conclusion the analysis in Chapters 6 and 7 tended to support the propositions proposed in Chapter 4. The exception may, however, be Proposition E. Whilst many firms, particularly large SOEs hold a substantial portfolio of unproductive assets, in many cases with the intention of generating profits, it is not entirely clear that such firms are holding ‘excess capital’, or that they are not pursuing a valid strategy to manage their liquidity.

8.2. The Relevance of the Balance Sheet Firm Approach to Understanding Financial Development

This thesis developed the balance sheet approach to the firm adapted with insights from Kalecki, Steindl and others to suggest that in a mature economy firms are not homogenous in the nature of their relationship with the finance sector. Financing, funding and liquidity management is, in part, determined by factors such as firm size and the capital intensity of investments. As the financial development of less developed countries implies the gradual implementation and development of financial institutions so it also implies that the ability of firms to access financing, funding and liquidity management services also changes over time, with implications for the size and nature of investments firms make, the degree to which firms hold liquid assets in their current account and the use they make of them. As developing countries tend to have few 'large entrepreneurs', then the attitude of the state toward the enterprise sector and particularly in compensating for the absence or immaturity of banks and financial markets takes on particular significance. As the financial sector develops then its relationship with different types of firm also evolves with implications for the sorts of investments firms make, the stability of financial markets and opportunities for firm growth and survival.

This thesis has implications for existing approaches to financial development. With respect to the financial liberalisation hypothesis it suggests that financial liberalisation would not be likely to stimulate substantial growth among small enterprises with limited collateral. Indeed, it would be larger firms assumed to operate in an 'enclave' who might benefit more substantially. The application of post-Keynesian and Keynesian concepts of funding, liquidity management, the inversion of the relationship between savings and investment and endogenous money suggests that the FLH has limited explanatory power, particularly as the approach outlined in this thesis implies factors unique to individual countries have the most resonance.

With regard to the stages of banking approach, one of the few post-Keyensian contributions to development economics, it suggests that the approach can be further developed with reference to the composition of the firm sector in developing countries. Similarly, studies that are concerned with the impact of indirect investment and international capital flows on developing countries could also be supplemented with analysis of the history and composition of the firm sector.

More generally, the approach developed in this thesis could provide some insight into the economic development of countries, particularly African countries, that have failed to develop a cohort of large firms. At present much analysis focuses on the constraints to the growth of small and medium sized enterprises - essentially, assuming, as did Marshall, that there should be growth from below, and that the imposition of business friendly institutions and liberal financial and banking sectors would facilitate economic growth via the mechanism of enterprise investments and growth.

The study of Vietnam in this thesis demonstrated some of the implications of state attempts to compensate for the absence of large concentrations of entrepreneurial capital, as well as the strategies of firms seeking to compensate for the absence of funding opportunities. It demonstrated a clear divide between small firms and large firms, and suggested, although longitudinal data wasn't available that an economic strategy reliant on the growth of initially small firms will not necessarily result in firms capable of making large scale investments without state support. However, it also suggested that granting large firms the autonomy to engage freely in financial markets may have an adverse impact. In the absence of funding opportunities and asset markets firms capable of generating retained earnings do seek to invest in non-capital intensive, low risk sectors in order to generate diversified cash flow.

Whilst liberalisation of the banking sector did appear to facilitate banking behaviour commensurate with the latter stages of the stages of banking approach the demand driven credit expansion was only partially the result of relatively risk free lending to large firms backed with collateral. Instead, it appears that less risk averse joint stock banks, some connected to SOCBs, and others part owned by large firms made loans to borrowers known to be engaging in speculative activities. That the repayments of both principle and interest would slow in the event of asset market deflation was not anticipated by some banks and large firms themselves, suggesting that unsecured lending is indeed a possibility in insufficiently risk averse banking systems, and liquidity management strategies as conducted by the likes of heavily indebted capital intensive firms such as Vinashin might not prove successful in the event of demand shocks to primary activities. If nothing else this suggests that those who do pursue industrial policies involving large, heavily leveraged capital investments must consider carefully the implications of a fall in demand what liquidity management strategies to pursue.

Another observation that might be made in response to those that see economic development as the outcome of ‘a broad movement from below upwards’, facilitated by liberal financial markets, is that much movement into new industries, or increased levels of investment in existing ones that is manifested in in the form of new enterprises is, at least in Vietnam, the direct result of large firm expansion. These firms both diversified to ensure continued liquidity, and also because they had access to retained earnings, outside finance and funding to ensure the investment projects were both possible and feasible. As some of the case studies of smaller, private, Vietnamese firms indicate although the productive and managerial capabilities might exist smaller firms will struggle to secure the funds required.

Finally, the approach adopted in this thesis sought to suggest a clear link between the micro - the behaviour of firms - and the macro, particularly aggregate levels of investment and, the savings gap in the enterprise sector and its financing. It demonstrated that as investment was financed by firm savings, but at the same time levels of investment determined firm savings then profit rates went some way to determine both the availability of retained earnings, and so the distribution of the proceeds of investment. As investment in turn partially determined the size of the firm then the heterogeneity of the firm sector would explain, in part, the level of investment, the size of the savings gap and funds available to firms to exploit in short term investments. In Vietnam low profit margins in the private sector suggested that the state sector recouped the majority of the proceeds from investment. Moreover, it was larger, predominantly state owned or quasi-private SOEs who were able to source foreign savings in the stockmarket, and more generally use asset markets to fund investments and manage liquidity.

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Appendix 1: The Top 200 Firms, All

Rank	English Name
1	Bank for Agriculture and Rural Development
2	Vietnam Post and Telecommunications Corporation
3	Electricity of Vietnam
4	Bank for Investment and Development of Vietnam
5	Vietsovpetro JV Enterprise
6	Bank for Foreign Trade of Vietnam
7	Pouyen Vietnam Co Ltd
8	Vietnam Insurance Corporation
9	HCMC Post and Telecommunications
10	Military Telecom Corporation
11	Vietnam Railway Corporation
12	Thai Nguyen Iron and Steel Co
13	Canon Vietnam Co Ltd
14	The Corporation for Financing and Promoting Technology
15	Vietnam Dairy Products Co.
16	Southern Steel Corporation
17	Vietnam Mobile Telecom Services Company
18	Tae Kwang Vina Industrial Co Ltd
19	Vietnam Paper Corporation
20	Fujitsu Vietnam Computer Products Co Ltd
21	CP Vietnam Livestock Co Ltd
22	Pouchen Vietnam
23	Saigon Tobacco Co.
24	Bao Viet Life Insurance
25	Honda Vietnam Co Ltd
26	Chang Shin Co Ltd
27	Hyundai Vinashin Shipyard Co Ltd

28	Bao Viet Insurance
29	Nidec Tosok Vietnam Co Ltd
30	Petroleum Technical Services Company
31	Furukawa Automotive Parts Co Ltd
32	Vietnam Construction Investment Import and Export Holding Corporation
33	Hwa Seung Vina Co Ltd
34	Vedan Vietnam
35	Yazaki EDS Vietnam Co Ltd
36	Saigon Tourist Holding Company
37	Dau Tieng Rubber Corp.
38	Viet Tien Garment Co.
39	Saigon Thuong Tin Bank
40	Dong Nai Rubber Co.
41	Vietnam Airlines
42	Hanoi Public Service and Transportation Co.
43	Tainan Spinning Co Ltd
44	Asia Commercial Bank
45	Yamaha Motor Vietnam Co Ltd
46	Saigon Beer Alcohol and Beverage Corporation
47	Hoang Thach Cement Co
48	Mabuchi Motor Vietnam Co Ltd
49	Civil Engineering Construction Corp. No.5
50	Nissei Electric Vietnam Co Ltd
51	Hualong Corporation Vietnam
52	Petrolimex B12
53	Vietnam Southern Food Corporation
54	HCMC Water Supply Co
55	Bim Son Cement Co
56	Khanh Viet Corporation

57	Prudential Vietnam
58	Metro Cash and Carry Vietnam
59	Nam Trieu Shipbuilding Company
60	Saigon Newport Co
61	Hanoi Textile and Garment Co
62	Dong Bac Coal Co.
63	Orion-Hanel Picture Tube Co Ltd
64	Cua Ong Coal Selecting Co.
65	Lam Thao Fertilizers and Chemicals Co
66	Petrolimex Region 2
67	Phong Phu Textile Co.
68	Chi Hung Joint Venture Co.
69	Thanh Le Commercial Import Export Co
70	Industrial and Commercial Bank of Vietnam
71	Nha Be Garment Co.
72	Dona Pacific Vietnam Co Ltd
73	Vietnam Manufacturing and Export Processing Co Ltd
74	Nam Viet Co Ltd
75	Binh Long Rubber Co
76	Kim Anh Co Ltd
77	Development Investment Construction Corp.
78	Formosa Vietnam Co Ltd
79	Construction Company No. 1
80	Sumitomo Bakelite Vietnam Co Ltd
81	Vietnam Ocean Shipping Co
82	Petrovietnam Gas Company
83	Southern Airport Authority
84	Construction Company No. 319
85	Bai Bang Paper Co

86	Noi Dia Coal Co Ltd
87	Phuoc Hoa Rubber Co
88	Lever Vietnam JVC
89	Dona Victor Moulds MFG Co
90	Phu Rieng Rubber Co
91	Ha Long Shipyard
92	Bach Dang Shipyard
93	Thanh Cong Textile Co.
94	Samyang Vietnam Co Ltd
95	Petrolimex Region 1
96	Intimex Import Export Co
97	Quang Ngai Sugar Corp.
98	Vietnam Acecook Co Ltd
99	Vietnam Sea Transport and Chartering Co
100	Southern Rubber Industry Co
101	Saigon Passenger Railway Transportation Co.
102	Kinh Do JSC
103	Saigon Co.opMart
104	Civil Engineering Construction Corp. No.1
105	Tan Mai Paper Co.
106	Ut Xi Aquatic Products Processing Co. Ltd.
107	Bao Minh Co
108	Cai Lan Oil and Fats Industries Co Ltd
109	Can Tho Agricultural and Animal Products Company
110	Uni President Vietnam Co Ltd
111	Ha Bac Nitrogen Fertilizers and Chemical Co
112	Northern Airports Authority
113	Dona Orion Vietnam Co Ltd
114	Binh Duong Trading Investment and Development Corporation

115	Cao Son Coal Co.
116	Uong Bi Coal Co.
117	Ha Tu Coal Co.
118	Saigon Port
119	Hanoi General Production and Import-Export Company
120	Vietnam Glass and Ceramics for Construction Corp.
121	Ha Tien Cement Co No.1
122	Thai Binh Co Ltd.
123	Machino Auto Parts Co Ltd
124	Phu Yen Material Company
125	Vietnam Air Petrol Co
126	Seaprodex Danang Co
127	Scancom Vietnam Co Ltd
128	Vissan Import Export Corporation
129	Saigon Agriculture Corporation
130	Can Tho Sea Product Processing Export Enterprise
131	Hai Phong Port
132	Yazaki Haiphong Vietnam Co Ltd
133	Saigon Post and Telecommunication JSC
134	Vang Danh Coal Co.
135	Petrovietnam Fertilizer and Chemicals Co.
136	Nui Beo Coal Co.
137	Chutex International Co Ltd
138	Phy My Hung Joint Venture Co.
139	Sumi-Hanel Electronics Co.
140	Construction Company No. 4
141	Technological and Commercial Joint Stock Bank
142	Theodore Alexander Co Ltd
143	Dutch Lady Vietnam

144	Industrial Explosive Material Company
145	Freetrend Industrial Vietnam Co Ltd
146	Holcim Vietnam Ltd.
147	Vietnam Export Import Commercial Joint Stock Bank
148	Company No. 28
149	Green River Wood and Lumber Vietnam Co Ltd
150	Eastern Asia Commercial Bank
151	Coc 6 Coal Co.
152	Triumph International Vietnam Co Ltd
153	Always Co Ltd
154	Ha Tien Cement Co No.2
155	Ha Long Coal Co.
156	But Son Cement Co
157	Nam Dinh Textile Co
158	Binh Duong Production and Import Export Co.
159	Proconco Producing Animal Feeds JVC
160	Southern Fertilizers Co
161	Hanoi Trade Corporation
162	Ca Mau Frozen Seafood Processing Import Export Corp.
163	Pangrim Neotex Co Ltd
164	An Giang Agriculture and Foods Import Export Co.
165	Hoang Gia Cat Tuong Co. Ltd
166	Northern Foodstuff Co
167	Mao Khe Coal Co.
168	Hoang Mai Cement Co
169	Kingmaker Footwear Vietnam Co Ltd
170	Saigon Transportation Mechanical Corporation
171	Minh Quy Aquatic Products Processing Co Ltd.
172	Tin Nghia Import Export Co

173	Vietnam Apatite Company
174	Thang Loi Textile and Garment Co
175	Vietnam Northern Food Corporation
176	Toyota Vietnam
177	Vietnam International Bank
178	Dong Nai Agricultural Products and Food Processing Import Export Co
179	Thanh An Corporation
180	Vietnam Construction and Import Export Corporation
181	Phuong Nam Joint Stock Commercial Bank
182	Deo Nai Coal Co.
183	Ninh Thuan Agricultural Products Export Co.
184	Viet Thang Textile Co.
185	Phu Nhuan Jewelry Joint Stock Company
186	Water Electrical Mechanical Installation and Construction Joint Stock Co
187	Vietnam Industrial Construction Corporation
188	Electrical Mechanical Appliances and Technology Development Company Co
189	Aquatic food trading Company
190	Sanyo Vietnam Home Appliances ASEAN
191	Lam Son Sugar Joint Stock Corporation
192	Binh Tien Consumer Goods Production Co. Ltd.
193	LG Electronics Vietnam Co Ltd
194	Ajinomoto Vietnam Co Ltd
195	Petec Trading and Investment Corporation
196	Cai Doi Vam Import Export Company
197	Danang Rubber Co
198	Grobest Industrial Vietnam Co Ltd
199	Minh Phu Seafood Import Export Co.
200	Loc Ninh Rubber Co.

Appendix 2: The Top 200 Firms, Vietnamese

Rank	English Name	Abbreviation
1	Bank for Agriculture and Rural Development	AGRIBANK
2	Vietnam Post and Telecommunications Corporation	VNPT
3	Electricity of Vietnam	EVN
4	Bank for Investment and Development of Vietnam	BIDV
5	Vietsovpetro JV Enterprise	VIETSOVPETRO
6	Bank for Foreign Trade of Vietnam	VIETCOMBANK
7	Vietnam Insurance Corporation	BAOVIET
8	HCMC Post and Telecommunications	
9	Military Telecom Corporation	VIETTEL
10	Vietnam Railway Corporation	VNR
11	Thai Nguyen Iron and Steel Co	TISCO
12	The Corporation for Financing and Promoting Technology	FPT
13	Vietnam Dairy Products Co.	VINAMILK
14	Southern Steel Corporation	SSC
15	Vietnam Mobile Telecom Services Company	VMS
16	Vietnam Paper Corporation	VINAPIMEX
17	Saigon Tobacco Co.	VINATABA SAIGON
18	Bao Viet Life Insurance	BAO VIET LIFE
19	Honda Vietnam Co Ltd	HONDA VIETNAM
20	Hyundai Vinashin Shipyard Co Ltd	HVS
21	Bao Viet Insurance	
22	Petroleum Technical Services Company	PTSC
23	Vietnam Construction Investment Import and Export Holding Corporation	CONSTREXIM HOLDINGS

24	Saigon Tourist Holding Company	SAIGON TOURIST
25	Viet Tien Garment Co.	VTEC
26	Saigon Thuong Tin Bank	SACOMBANK
27	Dau Tieng Rubber Corp.	
28	Vietnam Airlines	VIETNAM AIRLINES
29	Hanoi Public Service and Transportation Co.	TRANSERCO
30	Dong Nai Rubber Co.	DONARUCO
31	Asia Commercial Bank	ACB
32	Saigon Beer Alcohol and Beverage Corporation	SABECO
33	Yamaha Motor Vietnam Co Ltd	YAMAHA VIETNAM
34	Hoang Thach Cement Co	
35	Petrolimex B12	PETROLIMEX B12
36	Vietnam Southern Food Corporation	VINAFOOD 2
37	Khanh Viet Corporation	
38	Bim Son Cement Co	BCC
39	Civil Engineering Construction Corp. No.5	CIENCO 5
40	HCMC Water Supply Co	
41	Nam Trieu Shipbuilding Company	
42	Hanoi Textile and Garment Co	HANOSIMEX
43	Orion-Hanel Picture Tube Co Ltd	OHPT
44	Dong Bac Coal Co.	NECO
45	Saigon Newport Co	SNP
46	Cua Ong Coal Selecting Co.	
47	Lam Thao Fertilizers and Chemicals Co	LAFCHEMCO
48	Petrolimex Region 2	PETROLIMEX SAIGON
49	Phong Phu Textile Co.	PHONGPHU TEXCO

50	Thanh Le Commercial Import Export Co	THALEXIM
51	Chi Hung Joint Venture Co.	
52	Nha Be Garment Co.	NHABECO
53	Industrial and Commercial Bank of Vietnam	INCOMBANK
54	Development Investment Construction Corp.	DIC
55	Nam Viet Co Ltd	NAVICO
56	Kim Anh Co Ltd	
57	Binh Long Rubber Co	
58	Petrovietnam Gas Company	PVGAS
59	Vietnam Ocean Shipping Co	VOSCO
60	Construction Company No. 1	
61	Southern Airport Authority	SAA
62	Bai Bang Paper Co	BAPACO
63	Construction Company No. 319	
64	Lever Vietnam JVC	UNILEVER VIETNAM
65	Noi Dia Coal Co Ltd	
66	Phuoc Hoa Rubber Co	
67	Phu Rieng Rubber Co	
68	Ha Long Shipyard	
69	Bach Dang Shipyard	
70	Petrolimex Region 1	PETROLIMEX HANOI
71	Intimex Import Export Co	INTIMEX
72	Thanh Cong Textile Co.	T.CTEX
73	Quang Ngai Sugar Corp.	
74	Vietnam Sea Transport and Chartering Co	VITRANSCHART
75	Saigon Co.opMart	
76	Southern Rubber Industry Co	CASUMINA
77	Saigon Passenger Railway Transportation Co.	

78	Kinh Do JSC	KIDOCO
79	Civil Engineering Construction Corp. No.1	CIENCO 1
80	Tan Mai Paper Co.	
81	Cai Lan Oil and Fats Industries Co Ltd	CALOFIC
82	Bao Minh Co	BAO MINH
83	Ut Xi Aquatic Products Processing Co. Ltd.	
84	Ha Bac Nitrogen Fertilizers and Chemical Co	HANICHEMCO
85	Can Tho Agricultural and Animal Products Company	CATACO
86	Northern Airports Authority	NAA
87	Cao Son Coal Co.	
88	Binh Duong Trading Investment and Development Corporation	BECAMEX IDC
89	Saigon Port	CSG
90	Ha Tu Coal Co.	
91	Vietnam Glass and Ceramics for Construction Corp.	VIGLACERA
92	Uong Bi Coal Co.	
93	Hanoi General Production and Import-Export Company	HAPROSIMEX
94	Ha Tien Cement Co No.1	
95	Machino Auto Parts Co Ltd	MAP
96	Vietnam Air Petrol Co	VINAPCO
97	Phu Yen Material Company	PYGEMACO
98	Petrovietnam Fertilizer and Chemicals Co.	PVFCCo
99	Seaprodex Danang Co	SEAPRODEX DANANG
100	Vissan Import Export Corporation	VISSAN
101	Phy My Hung Joint Venture Co.	
102	Thai Binh Co Ltd.	
103	Can Tho Sea Product Processing Export Enterprise	
104	Saigon Post and Telecommunication JSC	SPT
105	Saigon Agriculture Corporation	

106	Hai Phong Port	
107	Vang Danh Coal Co.	
108	Nui Beo Coal Co.	
109	Technological and Commercial Joint Stock Bank	TECHCOMBANK
110	Holcim Vietnam Ltd.	
111	Sumi-Hanel Electronics Co.	
112	Dutch Lady Vietnam	
113	Vietnam Export Import Commercial Joint Stock Bank	VIETNAM EXIMBANK
114	Industrial Explosive Material Company	VIMICCO
115	Construction Company No. 4	
116	Eastern Asia Commercial Bank	
117	Proconco Producing Animal Feeds JVC	PROCONCO
118	Coc 6 Coal Co.	
119	But Son Cement Co	
120	Company No. 28	AGTEX
121	Ha Tien Cement Co No.2	
122	Southern Fertilizers Co	SFC
123	Ha Long Coal Co.	
124	Binh Duong Production and Import Export Co.	PROTRADE
125	Nam Dinh Textile Co	NATEXCO
126	Ca Mau Frozen Seafood Processing Import Export Corp.	CAMIMEX
127	Hanoi Trade Corporation	HAPRO
128	Hoang Mai Cement Co	
129	Saigon Transportation Mechanical Corporation	SAMCO
130	Northern Foodstuff Co	FONEXIM
131	An Giang Agriculture and Foods Import Export Co.	AFIEXCO
132	Toyota Vietnam	TOYOTA VIETNAM
133	Vietnam Northern Food Corporation	VINAFOOD 1

134	Minh Quy Aquatic Products Processing Co Ltd.	
135	Mao Khe Coal Co.	
136	Tin Nghia Import Export Co	TIMEX CO
137	Vietnam International Bank	VIBank
138	Hoang Gia Cat Tuong Co. Ltd	
139	Vietnam Construction and Import Export Corporation	VINACONEX
140	Vietnam Apatite Company	VINAAPCO
141	Phuong Nam Joint Stock Commercial Bank	
142	Thang Loi Textile and Garment Co	VITEXIM
143	Phu Nhuan Jewelry Joint Stock Company	
144	Ninh Thuan Agricultural Products Export Co.	
145	Dong Nai Agricultural Products and Food Processing Import Export Co	DONAFOODS
146	Deo Nai Coal Co.	
147	Petec Trading and Investment Corporation	PETEC
148	Vietnam Industrial Construction Corporation	VINAINCON
149	Thanh An Corporation	
150	Electrical Mechanical Appliances and Technology Development Company Co	GELIMEX
151	Viet Thang Textile Co.	VICOTEX
152	Aquatic Food Trading Company	APT CO
153	Water Electrical Mechanical Installation and Construction Joint Stock Co	COWAELMIC
154	Lam Son Sugar JSC	LASUCO
155	Minh Phu Seafood Import Export Co.	
156	Cai Doi Vam Import Export Company	CADOVIMEX
157	Hanoi Beer Alcohol and Beverage Corporation	HABECO
158	Binh Tien Consumer Goods Production Co. Ltd.	BITIS
159	Danang Rubber Co	DRC
160	Loc Ninh Rubber Co.	

161	Southern Airport Services Co	SASCO
162	Hanoi Clean Water Company	
163	Saigon Petro Co	SAIGON PETRO
164	Dong Phu Rubber Co.	
165	Thang Long Metal Ltd.	
166	HCMC Urban Environment Co	
167	Chinfon Haiphong Cement Co.	CHC
168	1-5 Automobile Mechanics Co.	
169	Pha Rung Shipyard	
170	Dak Lak Rubber Co.	DAKRUCO
171	Ba Ria Rubber Co.	BRC
172	Saigon Culture Company	
173	Vietnam Automobile Component Manufacturing Company	VAP
174	Power Construction Engineering Company No. 1	PCC1
175	Sao Vang Rubber Co	SRC
176	Power Engineering Consulting Company No. 1	
177	Ba Ria - Vung Tau Post and Telecommunications	
178	Vietnam Food Production Company	VIFON
179	Duong Huy Coal Co.	
180	Dong Thap Import Export Trading Co	DOCIMEXCO
181	Vietnam National Tea Corporation	VINATEA
182	Hai Phong Cement Co	
183	Vietnam Electric Wire and Cable Corporation	CADIVI
184	Production Service Import Export Co.	
185	Viet Foods Co Ltd	VIET FOODS
186	Seafood Import Export JSC	
187	Nha Trang Textile Co.	NHATEXCO
188	Housing and Urban Development Corporation	HUD

189	Song Da Co. No. 9	
190	Vietnam National Shipping Lines	VINALINES
191	Song Da Co. No. 10	
192	Garment Company No. 10	GARCO 10
193	Construction and Investment Development Co	INVESCO
194	Vietnam National Textile and Garment Corporation	VINATEX
195	Ben Thanh Tobacco Co	
196	Civil Engineering Construction Co. No.568	
197	Hon Gai Coal Selecting Co.	
198	Communication and Transportation Construction Company	
199	Hoa Phat Steel JSC	
200	Vietnam Joint Stock Commercial Bank for Private Enterprises	VPBank

Appendix 3: Interview Schedule

Company	Questionnaire	Date Interviewed
I. Questionnaire and Interview		
Honda Vietnam Co Ltd	X	5-Dec-06
Toyota Vietnam	X	5-Dec-06
Lam Thao Fertilizers and Chemicals Co	X	6-Dec-06
Hanoi General Production and Import Export Company	X	7-Dec-06
Machino Auto Parts Co Ltd	X	7-Dec-06
Vietnam Chemical Corporation	X	15-Dec-06
Lam Son Sugar Co	X	3-Jan-07
Vietnam Coal and Mineral Industries Group	X	4-Jan-07
Vietnam National Tea Corporation	X	4-Jan-07
Vietnam Apatite Company	X	5-Jan-07
Vietnam Automobile Component Manufacturing Co	X	7-Jan-07
Vietnam Paper Corporation	X	8-Jan-07
Rang Dong Light Source and Vacuum Flask Co	X	8-Jan-07
The Corporation for Financing and Promoting Technology	X	9-Jan-07
Vietnam National Shipping Lines	X	9-Jan-07
Vietnam Post and Telecommunications Group	X	10-Jan-07
Vietnam Oil and Gas Group	X	11-Jan-07
Vietnam Glass and Ceramics for Construction Corporation	X	11-Jan-07
Vietnam Shipbuilding Industry Group	X	12-Jan-07
Van Dien Fused Magnesium Phosphate Co	X	12-Jan-07
Thang Long Metal Ltd	X	15-Jan-07
Vietnam Sea Transport and Chartering Co	X	16-Jan-07
Viet Tien Garment Corporation	X	18-Jan-07
Binh Dien Fertilizer Co	X	22-Jan-07
Vietnam Electric Wire and Cable Corporation	X	22-Jan-07
Coastal Fisheries Development Co	X	24-Jan-07

Southern Rubber Industry Co	X	24-Jan-07
Petrovietnam Fertilizer and Chemicals Co	X	25-Jan-07
Dong Nai Rubber Co	X	26-Jan-07
Tan Mai Paper Co	X	26-Jan-07
Chi Hung Joint Venture Co	X	29-Jan-07
Binh Duong Production and Import Export Co	X	30-Jan-07
Nha Trang Seafood Co	X	1-Feb-07
Ninh Thuan Agricultural Export Co	X	1-Feb-07
Dak Lak Rubber Co	X	2-Feb-07
Hyundai Vinashin Shipyard Co Ltd	X	2-Feb-07
Cho Lon Investment and Import Export Corporation	X	3-Feb-07
Fuvi Mechanical Technology Co	X	5-Feb-07
Southern Fertilizers Co	X	6-Feb-07
Nha Be Garment Co	X	6-Feb-07
Vietnam Rubber Group	X	7-Feb-07
Ba Ria Rubber Co	X	8-Feb-07
Petrovietnam Gas Company	X	9-Feb-07
Phong Phu Textile Corporation	X	23-Feb-07
Sao Ta Food Co	X	5-Mar-07
Ut Xi Aquatic Products Processing Co Ltd	X	5-Mar-07
Minh Phu Seafood Import Export Co	X	6-Mar-07
Can Tho Agricultural and Animal Products Company	X	7-Mar-07
Viet Foods Co Ltd	X	7-Mar-07
Quang Ngai Sugar Corporation	X	8-Mar-07
Danang Rubber Co	X	9-Mar-07
Seaprodex Danang Co	X	9-Mar-07
Nam Trieu Shipbuilding Company	X	12-Mar-07
Vietnam Ocean Shipping Co	X	12-Mar-07
Bach Dang Shipyard	X	13-Mar-07
Ha Long Shipyard	X	14-Mar-07
Dong Bac Coal Corporation	X	14-Mar-07

Industrial Explosive Material Company	X	21-Mar-07
Vietnam National Petroleum Corporation	X	23-Mar-07
Sao Vang Rubber Co	X	26-Mar-07
Electricity of Vietnam	X	27-Mar-07
Petroleum Technical Services Company	X	28-Mar-07
Electrical Equipment Manufacturing Co	X	30-Mar-07
1-5 Automobile Mechanics Co	X	31-Mar-07
Garment Company No.10	X	31-Mar-07
Company No.28	X	2-Apr-07
Mercedes Benz Vietnam Ltd	X	4-Apr-07
An Phu Corporation	X	5-Apr-07
Southern Basic Chemicals Co	X	9-Apr-07
Vietsovpetro	X	17-May-07
II. Interview Only		
Vietnam Cement Association		26-Oct-06
Vietnam Steel Association		26-Oct-06
Vietnam Fertilizer Association		27-Oct-06
Vietnam Textile and Apparel Association		10-Dec-06
Vietnam Textile and Garment Group		9-Jan-07
Vietnam Rubber Association		17-Jan-07
Binh Long Rubber Co		30-Jan-07
Dau Tieng Rubber Corporation		30-Jan-07
Hoang Gia Cat Tuong Co Ltd		31-Jan-07
Cat Thai Plastic Co		5-Feb-07
Cai Doi Vam Import Export Company		6-Mar-07
Cai Lan Oil and Fats Industries Co Ltd		13-Mar-07
Lilama Corporation		16-Mar-07
Military Telecom Corporation		22-Mar-07
Vietnam Northern Food Corporation		27-Mar-07
March 8 Textile Co		29-Mar-07
Hanoi Textile and Garment Co		29-Mar-07

Binh Tien Consumer Goods Production Co Ltd		2-Apr-07
Vietnam Dairy Products Co		10-Apr-07
Vietnam Engine and Agricultural Machinery Corporation		16-May-07
III. Questionnaire Only		
An Giang Agriculture and Foods Import Export Co.	X	
Anvifish Co Ltd	X	
Bridge Construction Company No.12	X	
Cao Son Coal Co	X	
Chinfon Haiphong Cement Co	X	
Civil Engineering Construction Corporation No.1	X	
Coc 6 Coal Co	X	
Construction and Investment Company No.18	X	
Construction and Production Material Co	X	
General Production Investment Service Import Export Co	X	
Ha Long Coal Co	X	
Ha Tu Coal Co	X	
Hanoi Clean Water Company	X	
Hanoi Post and Telecommunications	X	
Hoang Thach Cement Co	X	
Hon Gai Coal Co	X	
Hon Gai Coal Selecting Co	X	
Mao Khe Coal Co	X	
Northern Airports Authority	X	
Northern Foodstuff Co	X	
Nui Beo Coal Co	X	
Petrolimex B12	X	
Petrolimex Region 1	X	
Power Construction Engineering Company No.1	X	
Proconco Producing Animal Feeds Co	X	
Saigon Newport Co	X	
Song Da Company No.10	X	

Thua Thien Hue Construction Corporation	X	
Uong Bi Coal Co	X	
Vang Danh Coal Co	X	
Vietnam Construction and Import Export Corporation	X	
Vietnam Construction Investment Import and Export Holding Corp.	X	
Vietnam Food Production Company	X	
Vietnam Railway Corporation	X	

Appendix 4: Firm Questionnaire

UNDP

Questionnaire for Largest Firms in Vietnam

Date: ____________________

Note: This questionnaire is intended for several types of firms and not all questions may be applicable.

<u>Please list values in **Vietnam dong**</u>

Company Name (English): ____

Company Name (Vietnamese): ____

Website address: ____

Section 1: General Information

1. When was the firm founded (Year)? ______________________________________
2. Current Legal Operating Structure: ______________________________________
3. Division of Ownership:

Owner	Percent
1.)	
2.)	
3.)	
4.)	
5.)	

4. If an SOE please indicate whether: a public utility _____, or a business SOE ______

   Also please indicate supervising agency ___________________________________
5. Is the firm classified as operating in a state sector (either 100% or 50% or more state capital) according to Decision 155/QD-TTg of 2004? Yes ___, No ___

6. Please list the firm's major activities and record the total values for 2003, 2004 and 2005:

Activity	2003	2004	2005
Primary activity: ____________________			
Secondary activity: __________________			
Other: ______________________________			

* Rank the firm's activities by total value added. If this is not possible rank according to the value of operations. If both are impossible rank according to net turnover.

7. If the firm's Primary Activity* is product-diversified please complete the following in ***percent*** for the products which contributed most by value to the Primary Activity in 2005 (if not product-diversified, please complete for Primary Activity as Product 1):

		Export Sales		**Sales to Domestic Customers**				
	Percent of Primary Activity	**Trading Agent**	**Business to Business**	**FIE**	**SOE**	**Private**	**Other**	**Related Firm***
Product 1: __________								
Product 2: __________								
Product 3: __________								
Product 4: __________								
Product 5: __________								

* Subsidiary, affiliate, joint venture, parent company, partner firm, etc.

8. Indicate which of the following are major suppliers of ***raw materials*** for your primary product or service and provide percentage of total inputs (Please tick box):

Supplier	**Major Supplier**		**Percent total inputs**
	Yes	**No**	
SOEs			
Domestic private			
Joint-ventures			
FIEs			
Imported directly by firm			

9. Indicate which of the following are major suppliers of ***intermediate inputs*** for your primary product or service and provide percentage of total inputs (Please tick box):

Supplier	Major Supplier		Percent total inputs
	Yes	No	
SOEs			
Domestic private			
Joint-ventures			
FIEs			
Imported directly by firm			

10. Please complete the following table:

	Domestic Market Share (percent)	Share of Vietnam Exports (percent)
Primary Activity		
of which:		
Product 1		
Product 2		
Product 3		
Product 4		
Product 5		
Secondary Activity		

11. Indicate which of the following are your major competitors for your primary activity and rank their importance (1 – Most Important, 5 – Least Important):

Competitor	Major Competitor		Rank
	Yes	No	
SOEs			
Domestic private			
Joint-ventures			
FIEs			
Imports			

12. Please indicate the numbers of staff in the following categories:

Category	**Male**	**Female**	**Total**
Board of Management			
Board of Directors			
Line Managers			
Workers (non-management) with science based university degrees (e.g. Engineer)			
Workers (non-management) with non-science based university degrees.			
Skilled non-graduate workers (with relevant experience or qualifications)			
Unskilled workers			
Administrative Staff			
Other			
Total			

Section 2: History of Firm

Year	Event*	Reason

***Please include:** Major investments by value (production facilities, capital assets); Change in Senior Management; Organizational expansion (acquisition, subsidiary, joint-venture, domestic branch office, overseas office); Expansion into new markets; Changes in ownership; New or improved product or service; Financial changes: change in source of credit.

Section 3: Strategy and Planning

1. Is your strategy set out in a business plan which is available as a document?

   Yes ___, No ___

2. Is the business plan:
   a. Available to the public? ____
   b. Available to investors only? ____
   c. For internal use only? ____

3. How does the business plan reflect the industry development plan?

   Mostly___ Partially____ Not at all_____ No Industry Plan _____

4. If a member company, how does your business plan relate to the corporation business plan if one exists?

   Mostly ___ Partially ____ Not at all ____ No GC plan _____

5. What are the key performance indicators in your strategy/ business plan? __________

   ____

6. Please indicate if any of the following are planned or anticipated in the next five years and indicate the reason:

	Planned		**Reason**			
	Yes	**No**	**Reorganize existing production processes**	**Expand existing production processes**	**Develop new production processes**	**Other (Please Detail)**
Create subsidiaries						
Create affiliates						
JV with FIE						
JV with VN firm						
New Production Facility						
Other (Please detail)						

Section 4: Capital Equipment

1. When was the majority of your capital equipment made (Please tick box)?

	1960s	1970s	1980s	1990s	2000s
Primary Activity					
Secondary Activity					

2. If capital equipment has been replaced in the ***last five years*** please indicate how quality, output and costs have been effected (Please tick box):

Activity	Effects					
	Same Quality	Increase Quality	Same Output	Increase Output	Same Costs	Reduce Costs
Replaced existing equipment to produce same product or service						
Supplemented existing equipment to undertake same product or service						
Replaced existing equipment to produce new product or service						
Produce new product or service alongside existing product or services						

3. If capital equipment will be replaced in the ***next five years*** please indicate how quality, output and costs will be effected (Please tick box):

Activity	**Effects**					
	Same Quality	**Increase Quality**	**Same Output**	**Increase Output**	**Same Costs**	**Reduce Costs**
Replace existing equipment to produce same product or service						
Supplement existing equipment to undertake same product or service						
Replace existing equipment to produce new product or service						
Produce new product or service alongside existing product or services						

4. Are there incentives to buy capital equipment domestically? Yes ___, No ___
5. Please assess the ***quality*** of your main product or service in relation to (Please tick box):

		Inferior	**Equal**	**Superior**	**Don't Know**
Vietnamese competitors	State				
	Domestic Private				
Foreign competitors	Imports				
	FIEs in Vietnam				
Competitors in export markets					

6. Please assess the ***price*** of your main product or service in relation to: (Please tick box)

		Lower	Equal	Higher	Don't Know
Vietnamese competitors	State				
	Domestic Private				
Foreign competitors	Imports				
	FIEs in Vietnam				
Competitors in export markets					

7. Indicate which of the following was/ will be associated with purchase of equipment:
    a. Reduction/ Increase* of unskilled staff.
    b. Reduction/ Increase* of staff with science degree.
    c. Reduction/ Increase* in skilled staff.
    d. No Change _____

    *Please delete as appropriate

8. Rate the degree to which each of the following factors affect the acquisition of capital equipment (1 – Very Important, 5 – Not Important):

Factors	**Importance**				
	1	**2**	**3**	**4**	**5**
Difficulties finding suitable equipment/ technology					
Difficulties licensing suitable technology from foreign firms					
Lack of capital					
Staff lack skills required to absorb technology into existing business and production processes					
Obstacles to laying off workers					
Acquiring necessary government approval					

Section 5: Innovation (improvements to existing processes, or actions undertaken to incorporate new equipment or processes)

1. Please indicate whether the firm has improved or will improve production processes and/ or business processes in the last five years/ next five years in response to the following factors (Please tick box):

	Last 5 Years			**Next 5 Years**		
	N/A*	**No**	**Yes**	**N/A***	**No**	**Yes**
Competitive pressure from Vietnamese private firms						
Competitive pressure from Vietnamese SOEs						
Competitive pressure from FIEs						
Competitive pressure from imports						
To match quality of competitors in export markets						
Quality regulations in new export markets						
To meet quality requirements of foreign partner						
New government regulation						
Government sectoral strategy and development policies						

* Not Applicable

2. Please indicate importance of the following when improving production processes, business processes and product (1-Very Important, 5-Not Important):

Method	**Importance**				
	1	**2**	**3**	**4**	**5**
Internal R&D department					
Suggestions from workers and managers					
Cooperation with domestic R&D institutions					
Reverse engineering					
Buy technology from domestic sources					
Buy technology from foreign sources					
Joint venture with domestic enterprises					
Joint venture with foreign enterprises					
Hiring domestic consultants					
Hiring foreign consultants					
Domestic training					
Training/ study tour abroad					
Google					

3. Please indicate significance of the following obstacles to desired process improvements (1 - Very Significant, 5 – Not Significant):

Method	**Significance**				
	1	**2**	**3**	**4**	**5**
Lack of capital					
Lack of skilled technical staff					
Lack of access to technology					
Lack of technical knowledge.					
Other ________________________					

4. Please *rank* the following activities in order of priority (1 – Most Important, 8 – Least Important) in the last five years and the next five years:

Activities	**Last Five Years**		**Next Five Years**	
	Primary Activity	**Secondary Activity**	**Primary Activity**	**Secondary Activity**
Product improvement				
Improvement of production process				
New production facilities				
New product models				
Upgrade existing production facilities				
Increase market share in existing markets				
Enter new foreign market				
Others				

Section 6: Labour

1. Please indicate the length of time staff have been with the firm, and if staff joined the firm within the last three years please indicate from where they were recruited:

Category	Length of time with firm (Percent of each category)			If recruited within last 3 years recruited from (Percentage of each category):				
	Over 10 Years	10-5 Years	3-5 Years	Domestic Private firm	Domestic SOE	FIE	Gov Institution	Direct from University
Board of Management								
Board of Directors								
Line Managers								
Workers (non-management) with science based university degrees (e.g. Engineer)								
Workers (non-management) with non-science based university degrees.								
Skilled non-graduate workers (with relevant experience or qualifications)								
Unskilled workers								
Administrative Staff								

Other								

2. Please complete the following table for ***members of the Board of Management***:

	Number
Are full time members?	
Has a university degree from a Western University?	
Has a university degree from a non-Western (Soviet Bloc, China) University?	
Has a science-based university degree?	
Has a Vietnamese university degree or equivalent?	
Has an MBA from a foreign business school?	
Has an MBA from a VN business school?	
Has experience working in an FIE?	
Has experience working abroad?	
Can communicate directly with foreign counterparts in English?	

3. Please complete the following table for ***Board of Directors***:

	Number
Are full time members?	
Has a university degree from a Western University?	
Has a university degree from a non-Western (Soviet Bloc, China) University?	
Has a science-based university degree?	
Has a Vietnamese university degree or equivalent?	
Has an MBA from a foreign business school?	
Has an MBA from a VN business school?	
Has experience working in an FIE?	
Has experience working abroad?	
Can communicate directly with foreign counterparts in English?	

4. What percentage of skilled workers with a science degree (graduate or post-graduate):
   a. Has experience working in an FIE in the same field_____
   b. Was trained in a foreign University______
5. What proportion of skilled workers:

a. Has experience working in an FIE in the same field_____

b. Was trained in a foreign University______

6. Please complete the following table (Please tick box):

Category	**Average wage (percentage of staff in each category)**			
	<2mil VND	**2-5mil VND**	**5-10mil VND**	**>10mil VND**
Board of Management				
Management (e.g. Directors)				
Workers (non-management) with science based university degrees (e.g. Engineer)				
Workers (non-management) with non-science based university degrees.				
Skilled non-graduate workers (with relevant experience or qualifications)				
Unskilled workers				
Administrative Staff				
Other				

7. Please record percentage of training budget spent on following categories:

Category	In firm	Outside of firm in Vietnam	Training courses/ Study Tours in foreign country
Board of Management			
Board of Directors			
Line Managers			
Workers (non-management) with science based university degrees (e.g. Engineer)			
Workers (non-management) with non-science based university degrees.			
Skilled non-graduate workers (with relevant experience or qualifications)			
Unskilled workers			
Administrative Staff			
Other			

8. Please indicate the importance of training for the following (1 – Very important, 5 – Not important)

	1	2	3	4	5
Bring new staff to required level					
Raising standard of existing skill sets					

Learning to use new equipment					
Learning new business processes					
Other ___________________________					

9. Please indicate the availability of the following (Please tick box):

Category	Readily Available	Available but expensive	Not Available
Board of Management			
Board of Directors			
Line Managers			
Workers (non-management) with science based university degrees (e.g. Engineer)			
Workers (non-management) with non-science based university degrees.			
Skilled non-graduate workers (with relevant experience or qualifications)			
Unskilled workers			
Administrative staff			
Other			

Section 7: Relationship with state institutions

1. Rate state involvement in the following decisions (if member company of a corporation, please also fill out second column) (Please tick box):

Decision	State Involvement					Parent Company Involvement				
	Very High	High	Medium	Low	None	Very High	High	Medium	Low	None
Business plan and strategies										
Investment										
Hiring senior management										
Hiring new staff										
Firing existing staff										
Determining staff wages										
Product diversification										
Business Diversification										
Sourcing raw materials and inputs										
Price paid for raw materials and inputs										
Importing										
Exporting										
Determining prices of products										

2. Please indicate state involvement in the following activities and if involved, which state institution(s) (Please tick box):

	Very High	**High**	**Medium**	**Low**	**None**	**State institution(s)**
Provide brand name						
Find business partners						
Assist in exporting						
Assist in importing						
Provide financing						
Guarantee firm loans from banks						
Provide land						
Guarantee buyers of firm output						
Assist in acquisition of new technology						

3. If a member company of a corporation, please fill out in relation to parent company involvement (Please tick box):

	Very High	**High**	**Medium**	**Low**	**None**
Provide brand name					
Find business partners					
Assist in exporting					
Assist in importing					
Provide financing					
Guarantee firm loans from banks					
Provide land					
Guarantee buyers of firm output					
Assist in acquisition of new technology					

4. If an SOE, does the firm have plans to transform into an entity operating under the Enterprise Law? Yes ___, No ____, Already transformed _____

   If yes, what is the anticipated ownership type following transformation?

   ____

   If yes, is this plan approved? Yes _____, No _____

Section 8: Finances

1. Please complete the following table:

	2003	2004	2005
Total Revenues			
Total Assets			
Turnover from sales, service			
of which:			
Domestic sales, service			
International sales, service			

2. How much did the firm remit to the state (taxes, returns to state capital, other) in:

   2003 _______________, 2004_______________ and 2005_______________?

3. Did the firm benefit from any tax incentives in (Yes/No):

   2003 _______________, 2004_______________ and 2005_______________?

4. If a member company, how much do you remit to the parent company (management fees, dividends, capital usage fees, other) in:

   2003 _______________, 2004_______________ and 2005_______________?

5. If the firm did not pay Corporate Income Tax (CIT) in the following years, please indicate why not:

Year	**Reason**			
	Made a loss	**Broke even**	**Tax incentive**	**Other**
2003				
2004				
2005				

6. Please complete the following table:

Share of Total Debt (Short and Long should equal 100%)	**Percent**
Short term	
% short term debt secured by government	
Long term	
% long term debt secured by government	

7. Is securing a loan easier ____ or more difficult ____ now than five years ago?

8. Please indicate how the importance of the following when securing credit has changed over the last five years (Please tick box):

	Never Required	**Unchanged**	**Less frequently required**	**More frequently required**
Collateral				
Financial statements				
Feasibility study				
Company audit				

9. Please rank the following in order of importance for sourcing funds for ***capital investments*** (1 – Most Important, 11 – Least Important):

Source	**5 Years Ago**	**Now**	**In 5 Years**
Retained earnings			
Central State budget			
Local State budget			
SOCB loan			
JSC bank loan			
Foreign bank loan			
DAF (VDB)			
Sale of assets			
Equity offerings			
Bonds			
Transfer from parent company			

10. Please provide the debt/asset ratio for: 1995 ______, 2000 ______, 2005 ______

11. Please indicate the percentage of state capital in total capital ________

12. If a member company of a corporation, please indicate the percentage of parent company capital in total firm capital ________

13. Does the firm plan to list on the stock market? Yes ___, No ___

    If the firm is already listed, please provide the code: _______

14. Do you have investments in other companies? ___________

15. Please complete (percentage not value):

Revenue Source	Percentage of total revenues		
	2003	2004	2005
Sales			
Financial investments			
Renting, leasing land			
Other _______________________			
Total (should equal 100%)			

16. Please complete (percentage not value):

Expenditures	Percentage of total expenditure		
	2003	2004	2005
Wages			
Staff training			
Research and development			
Marketing			
Product distribution			
Market research			
Raw materials and inputs			
Maintenance of equipment			
Other __________________			
Total (should equal 100%)			

Appendix 5: General Corporation Head Office Questionnaire

UNDP

Corporation Questionnaire

Date: ________________

Please list values in **Vietnam dong**

Definitions:

Corporation: all units of the corporation, including: head office, dependent accounting units, independent accounting units

Head office: the administrative office and departments of the corporation only

Corporation Name (English): ____

Corporation Name (Vietnamese): ____

Website address: ____

Section 1: General Information

13. Current Legal Operating Structure of the corporation:

	Corporation Type	**Supervising Agency**
GC 90		
GC 91		
Parent-Subsidiary Model		
Economic Group		
Other ______________________		

14. When was the corporation founded (Year)?

If having been transformed, please indicate the year of transformation?

Does the ***corporation*** have plans to transform into an entity operating under the Enterprise Law?

Yes ___, No ____,

If yes, what is the anticipated transformation year?

If yes, what is the anticipated transformation model?

Parent-children company ________________economic group________________

15. Did the head office exist prior to becoming the head office of the corporation?

    Yes ___ No ___, If yes, was it a: SOE ___, Government Agency ___, Other ___

    If yes, please provide the name of the former organization: _____________________

16. Which enterprises were the founding members of the corporation?

Enterprise Name
1.)
2.)
3.)
4.)
5.)

17. Is the ***corporation*** classified as operating in a state sector according to Decision 155/QD-TTg of 2004? Yes ___, No ___

18. Please list the ***corporation's*** major activities and record total value: (million VND)

Activity	**2003**	**2004**	**2005**
Primary activity: _____________________			
Secondary activity: ___________________			
Other: _____________________________			

* Rank the firm's activities by total value added. If this is not possible rank according to the value of operations. If both are impossible rank according to net turnover.

19. If the ***corporation's*** Primary Activity is product-diversified please complete the following in percent for the products which contributed most by value to the Primary Activity in 2005 (if not product-diversified, please complete for Primary Activity as Product 1):

		Export Sales		Sales to Domestic Customers			
	Percent of Primary Activity	**Trading Agent**	**Business to Business**	**FIE**	**SOE**	**Private**	**Other**
Product 1: ___________							
Product 2: ___________							
Product 3: ___________							
Product 4: ___________							
Product 5: ___________							

20. If the ***corporation's*** Secondary Activity is product-diversified please complete the following in percent for the products which contributed most by value to the Secondary Activity in 2005 (if not product-diversified, complete for Secondary Activity as Product 1):

		Export Sales		Sales to Domestic Customers			
	Percent of Secondary Activity	**Trading Agent**	**Business to Business**	**FIE**	**SOE**	**Private**	**Other**
Product 1: ___________							
Product 2: ___________							
Product 3: ___________							
Product 4: ___________							
Product 5: ___________							

21. Please complete the following table for the ***corporation***:

	Domestic Market Share (percent)	**Share of Vietnam Exports (percent)**
Primary Activity		
of which:		
Product 1		
Product 2		
Product 3		
Product 4		
Product 5		

	Domestic Market Share (percent)	**Share of Vietnam Exports (percent)**
Secondary Activity		
of which:		
Product 1		
Product 2		
Product 3		
Product 4		
Product 5		

22. Indicate which of the following are your major competitors for your ***corporation's*** Primary Activity and rank their importance (1 – Most Important, 5 – Least Important):

Competitor	**Major Competitor**		**Rank**
	Yes	**No**	
Other state corporations			
Domestic private			
Joint-ventures			

FIEs			
Imports			

23. Please indicate the numbers of ***head office*** staff in the following categories:

Category	**Male**	**Female**	**Total**
Board of Management			
Board of Directors			
Line Managers			
Workers (non-management) with science based university degrees (e.g. Engineer)			
Workers (non-management) with non-science based university degrees.			
Skilled non-graduate workers (with relevant experience or qualifications)			
Unskilled workers			
Administrative Staff			
Other			
Total			

24. Please indicate the numbers of ***corporation*** staff in the following categories:

Category	**Male**	**Female**	**Total**
Board of Management			
Board of Directors			
Line Managers			
Workers (non-management) with science based university degrees (e.g. Engineer)			
Workers (non-management) with non-science based university degrees.			
Skilled non-graduate workers (with relevant experience or qualifications)			
Unskilled workers			
Administrative Staff			
Other			

Total			

Section 2: History of Corporation

Year	Event*	Reason

***Please include:** Major investments by value (production facilities, capital assets); Change in Senior Management; Organizational expansion (acquisition, subsidiary, joint-venture, domestic branch office, overseas office); Expansion into new markets; Changes in ownership; New or improved product or service; Financial changes: change in source of credit.

Section 3: Strategy and Planning

7. Is your strategy set out in a business plan which is available as a document?

   Yes ___, No ___

8. Is the business plan:
   a. Available to the public? ____
   b. Available to investors only? ____
   c. For internal use only? ____

9. How does the business plan reflect the industry development plan?

   Mostly___ Partially____ Not at all_____ No Industry Plan _____

10. Does the business plan include subsidiaries and joint venture member companies of the corporation? Yes ___ No ____

11. What are the key performance indicators in your strategy/ business plan? __________

    ____

12. Please indicate if any of the following are planned or anticipated by the ***corporation*** in the next five years and indicate the reason:

	Planned		**Reason**			
	Yes	**No**	**Reorganize existing production processes**	**Expand existing production processes**	**Develop new production processes**	**Other (Please Detail)**
Create subsidiaries						
Create affiliates						
JV with FIE						
JV with VN firm						
New Production Facility						
Other (Please detail)						

Section 4: Capital Equipment (please answer all questions in this section for the corporation)

9. Are there incentives for the corporation to buy capital equipment domestically?

   Yes ___, No ___

10. Please assess the ***quality*** of the corporation's main product or service in relation to (Please tick box):

		Inferior	Equal	Superior	Don't Know
Vietnamese competitors	State				
	Domestic Private				
Foreign competitors	Imports				
	FIEs in Vietnam				
Competitors in export markets					

11. Please assess the ***price*** of the corporation's main product or service in relation to (Please tick box):

		Lower	Equal	Higher	Don't Know
Vietnamese competitors	State				
	Domestic Private				
Foreign competitors	Imports				
	FIEs in Vietnam				
Competitors in export markets					

Section 5: Innovation (improvements to existing processes, or actions undertaken to incorporate new equipment or processes)

5. Please indicate whether the ***corporation*** has improved or will improve production processes and/ or business processes in the last five years/ next five years in response to the following factors (Please tick box):

	Last 5 Years			**Next 5 Years**		
	N/A*	**No**	**Yes**	**N/A***	**No**	**Yes**
Competitive pressure from Vietnamese private firms						
Competitive pressure from Vietnamese state corporations						
Competitive pressure from FIEs						
Competitive pressure from imports						
To match quality of competitors in export markets						
Quality regulations in new export markets						
To meet quality requirements of foreign partner						
New government regulation						
Government sectoral strategy and development policies						

* Not Applicable

6. Please indicate importance of the following when improving production processes, business processes and products of the ***corporation*** (1-Very Important, 5-Not Important):

Method	**Importance**				
	1	**2**	**3**	**4**	**5**
Internal R&D department					
Suggestions from workers and managers					
Cooperation with domestic R&D institutions					
Reverse engineering					
Buy technology from domestic sources					
Buy technology from foreign sources					
Joint venture with domestic enterprises					
Joint venture with foreign enterprises					
Hiring domestic consultants					
Hiring foreign consultants					
Domestic training					
Training/ study tour abroad					
Google					

7. Please *rank* the following activities in order of priority for the ***corporation*** (1 – Most Important, 8 – Least Important) in the last five years and the next five years:

Activities	**Last Five Years**		**Next Five Years**	
	Primary Activity	**Secondary Activity**	**Primary Activity**	**Secondary Activity**
Product improvement				
Improvement of production process				
New production facilities				
New product models				
Upgrade existing production facilities				
Increase market share in existing markets				
Enter new foreign market				
Others				

Section 6: Labour (please complete all questions in this section for the head office)

10. Please indicate the percentage of staff who have the following length of time with the head office, and please indicate the percentage of staff who joined the firm within the last three years and their previous employment with the following institutions (%):

Category	Length of time with firm (Percent of each category)			If recruited within last 3 years recruited from (Percent of each category):					
	Over 10 Years	10-5 Years	3-5 Years	Member company	SOE	Domestic Private firm	FIE	Gov Institution	Direct from University
Board of Management									
Board of Directors									
Line Managers									
Workers (non-management) with science based university degrees (e.g. Engineer)									
Workers (non-management) with non-science based university degrees.									
Skilled non-graduate workers (with relevant experience or qualifications)									
Unskilled workers									
Administrative Staff									
Other									

11. Please complete the following table for ***members of the Board of Management*** of the head office:

	Number
Are full time members?	
Has a university degree from a Western University?	
Has a university degree from a non-Western (Soviet Bloc, China) University?	
Has a science-based university degree?	
Has a Vietnamese university degree or equivalent?	
Has an MBA from a foreign business school?	
Has an MBA from a VN business school?	
Has experience working in an FIE?	
Has experience working abroad?	
Can communicate directly with foreign counterparts in English?	

12. Please complete the following table for ***managers*** (e.g. Directors) of the head office:

	Number
Has a university degree from a Western University?	
Has a university degree from a non-Western (Soviet Bloc, China) University?	
Has a science-based university degree?	
Has a Vietnamese university degree or equivalent?	
Has an MBA from a foreign business school?	
Has an MBA from a VN business school?	
Has experience working in an FIE?	
Has experience working abroad?	
Can communicate directly with foreign counterparts in English?	

13. What percentage of skilled workers of the head office with a science degree (graduate or post-graduate):

    c. Has experience working in an FIE in the same field_____

    d. Was trained in a foreign University______

14. Please complete the following table for the head office (Please tick box):

Category	Average wage (percentage of staff in each category)			
	<2mil VND	**2-5mil VND**	**5-10mil VND**	**>10mil VND**
Board of Management				
Board of Directors				
Line Managers				
Workers (non-management) with science based university degrees (e.g. Engineer)				
Workers (non-management) with non-science based university degrees.				
Skilled non-graduate workers (with relevant experience or qualifications)				
Unskilled workers				
Administrative staff				
Other				

15. Please record percentage of training budget for the head office spent on following categories:

Category	In firm	Outside of firm in Vietnam	Training courses/ Study Tours in foreign country
Board of Management			
Board of Directors			
Line Managers			
Workers (non-management) with science based university degrees (e.g. Engineer)			
Workers (non-management) with non-science based university degrees.			
Skilled non-graduate workers (with relevant experience or qualifications)			
Unskilled workers			
Administrative staff			
Other			

16. Please indicate the importance of training for the following (1 – Very important, 5 – Not important)

	1	2	3	4	5
Bring new staff to required level					
Raising standard of existing skill sets					

Learning to use new equipment					
Learning new business processes					
Other ___________________________					

17. Please indicate the availability of the following for the head office (Please tick box):

Category	**Readily Available**	**Available but expensive**	**Not Available**
Board of Directors			
Line Managers			
Workers (non-management) with science based university degrees (e.g. Engineer)			
Workers (non-management) with non-science based university degrees.			
Skilled non-graduate workers (with relevant experience or qualifications)			
Unskilled workers			
Administrative Staff			
Other			

Section 7: Relationship between state institutions and the corporation, and the head office
and independent accounting member companies

5. Rate state involvement in the following ***corporation*** decisions (Please tick box):

Decision	**State Involvement**				
	Very High	**High**	**Medium**	**Low**	**None**
Business plan and strategies					
Investment					
Hiring senior management					
Hiring new staff					
Firing existing staff					
Determining staff wages					
Product diversification					
Business Diversification					
Sourcing raw materials and inputs					
Price paid for raw materials and inputs					
Importing					
Exporting					
Determining prices of products					

6. Please indicate state involvement in the following ***corporation*** activities and if involved, which state institution(s) (Please tick box):

	Very High	**High**	**Medium**	**Low**	**None**	**State institution(s)**
Provide brand name						
Find business partners						
Assist in exporting						
Assist in importing						
Provide financing						
Guarantee firm loans from banks						
Provide land						
Guarantee buyers of firm output						
Assist in acquisition of new technology						

7. Rate ***head office*** involvement in the following independent accounting member company decisions (Please tick box):

Decision	**Head Office Involvement**				
	Very High	**High**	**Medium**	**Low**	**None**
Business plan and strategies					
Investment					
Hiring senior management					
Hiring new staff					
Firing existing staff					
Determining staff wages					
Product diversification					
Business Diversification					
Sourcing raw materials and inputs					
Price paid for raw materials and inputs					
Importing					
Exporting					
Determining prices of products					

8. Please indicate ***head office*** involvement in the following independent accounting member company activities (Please tick box):

	Very High	**High**	**Medium**	**Low**	**None**
Provide brand name					
Find business partners					
Assist in exporting					
Assist in importing					
Provide financing					
Guarantee firm loans from banks					
Provide land					
Guarantee buyers of firm output					
Assist in acquisition of new technology					

Section 8: Finances

1. Does the ***corporation*** maintain consolidated accounts for the entire corporation?

   Yes ___ No ___

2. Does the ***corporation*** have a financial member company(s)? Yes __ No ___
3. Please complete the following table for the ***head office and dependent accounting units***: (million VND)

	2003	**2004**	**2005**
Total Revenues			
Total Assets			
Turnover from sales, service			
of which:			
Domestic sales, service			
International sales, service			

4. Please complete the following table for the ***corporation***: (million VND)

	2003	**2004**	**2005**
Total Revenues			
Total Assets			
Turnover from sales, service			
of which:			
Domestic sales, service			
International sales, service			

5. How much did the ***head office and dependent accounting units*** remit to the state (taxes, returns to state capital, other) in: (million VND)

   2003 _______________, 2004_______________ and 2005 ______________?

6. How much did the ***corporation*** remit to the state (taxes, returns to state capital, other) in:

   2003 _______________, 2004_______________ and 2005 ______________?

7. Did the ***corporation*** benefit from any tax incentives in (Yes/No):

   2003 _______________, 2004_______________ and 2005_______________?

8. If the ***head office and dependent accounting units*** did not pay Corporate Income Tax (CIT) in the following years, please indicate why not:

Year	Reason			
	Made a loss	**Broke even**	**Tax incentive**	**Other**
2003				
2004				
2005				

9. Please complete the following table for the ***corporation***:

Share of Total Debt (Short and Long should equal 100%)	**Percent**
Short term	
% short term debt secured by government	
Long term	
% long term debt secured by government	

10. Is securing a loan easier ____ or more difficult ____ now than five years ago?
11. Please indicate for the ***corporation*** how the importance of the following when securing credit has changed over the last five years (Please tick box):

	Never Required	**Unchanged**	**Less frequently required**	**More frequently required**
Collateral				
Financial statements				
Feasibility study				
Company audit				

12. Please rank the following in order of importance for sourcing funds for ***capital investments*** for the ***corporation*** (1 – Most Important, 11 – Least Important):

Source	**5 Years Ago**	**Now**	**In 5 Years**
Retained earnings			
Central State budget			
Local State budget			
SOCB loan			
JSC bank loan			
Foreign bank loan			
DAF (VDB)			
Sale of assets			
Equity offerings			
Bonds			
Transfers from member companies			

13. Please provide ***corporation*** debt/asset ratio for: 1995 ____, 2000 ____, 2005 ____

14. Please indicate the percentage of state capital in the total capital of the ***corporation*** ________

15. Does the ***corporation*** plan to list on the stock market? Yes ___, No ___

    If the firm is already listed, please provide the code: _______

    a. *If not plan to list, why not?*

16. Does the ***head office*** have investments in other companies outside of the corporation? Yes ___ No ___

17. Please complete for the ***head office and dependent accounting units***:

Revenue Source	**Percentage of total revenues**		
	2003	**2004**	**2005**
Sales			
Remittances from members			
Other financial investments			
Renting, leasing land			
Other ______________________			
Total (should equal 100%)			

18. Please complete for the ***corporation***:

Revenue Source	**Percentage of total revenues**		
	2003	**2004**	**2005**
Sales			
Contribution from members			
Financial investments			
Renting, leasing land			
Other ______________________			
Total (should equal 100%)			

19. Please complete for the ***head office and dependent accounting units***:

Expenditures	**Percentage of total expenditure**		
	2003	**2004**	**2005**
Wages			
Staff training			
Research and development			
Marketing			
Product distribution			
Market research			
Other _________________			
Total (should equal 100%)			

Appendix 6: Flow of Funds Worksheets

	1999 % of GDP	Cen Gov (K1) U	S	RoW (K2) U	S	Mon Auth (K3) U	S	Dep Money 'banks flow' (K4) U	S	Private Sector (K6,K7) U	S	Disc Sources (K5)	Total U	S
1														
2	**Gross Capital Formation**	**6.7%**								**21.0%**			**27.6%**	
3														
4	**Gross Saving**		**5.9%**		**0.0%**						**25.9%**			**31.7%**
5														
6	Surplus/ Deficit	**-0.8%**		**-4.1%**						**4.9%**			**0.0%**	
7														
8														
9	**Ch Foreign claims, net**				**7.3%**	**4.7%**		**2.8%**				**7.8%**	**7.5%**	**15.1%**
10														
11	Ch Foreign Assets				**7.2%**	**4.7%**		**2.8%**				**12.2%**	**7.5%**	**19.4%**
12	Ch Foreign Liabilities			**-0.1%**			**0.0%**	**0.0%**	**0.0%**			**-4.5%**	**-0.1%**	**-4.4%**
13														
14	**Ch Interbank Claims**						**0.4%**	**-0.1%**				**-0.3%**	**-0.1%**	**0.0%**
15														
16	Ch Mon auth credit to DMB					**0.9%**			**1.8%**			**-0.3%**	**0.9%**	**1.5%**
17	Ch Bank Reserves						**1.3%**	**1.7%**				**0.0%**	**1.7%**	**1.3%**
18														
19	**Ch Central gov debt**		**-0.2%**			**-1.5%**		**0.6%**		**0.1%**		**-0.3%**	**2.2%**	**-0.5%**
20														
21	Ch Claims on cen gov		**-0.2%**			**-0.2%**		**0.5%**		**0.1%**		**3.4%**	**0.4%**	**3.2%**
22	Ch Cen gov deposits	**-1.0%**					**1.4%**		**-0.3%**			**-3.7%**		
23														
24	**Ch Private credit, net**	**1.8%**		**6.4%**		**0.0%**		**10.0%**			**18.2%**		**18.2%**	**18.2%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**1.8%**		**6.4%**			**0.0%**	**10.0%**	**0.0%**	**0.0%**	**18.2%**		**18.2%**	**18.2%**
28														
29	**Ch Money and quasi money**						**3.6%**		**10.9%**	**14.5%**			**14.5%**	**14.5%**
30														
31	Ch Curr and demand deposits						**3.6%**		**2.2%**	**5.8%**			**5.8%**	**5.8%**
32	Ch Time, savings dep								**8.7%**	**8.7%**			**8.7%**	**8.7%**
33														
34	**Misc and discrepancy**		**0.0%**	**-3.2%**			**-0.8%**		**2.9%**		**1.7%**	**-7.1%**	**-3.2%**	**-3.2%**
35														
36														
37	**Total**	**8.5%**	**5.7%**	**6.2%**	**3.2%**	**3.1%**	**3.1%**	**11.4%**	**13.9%**	**35.6%**	**45.8%**	**0.0%**		
38														
39														
40														

	2000 % of GDP	Cen Gov (K1)		RoW (K2)		Mon Auth (K3)		Dep Money 'banks flow' (K4)		Private Sector (K6,K7)		Disc Sources (K5)	Total	
		U	S	U	S	U	S	U	S	U	S		U	S
1														
2	**Gross Capital Formation**	**6.7%**								**22.9%**			**29.6%**	
3														
4	**Gross Saving**		**4.0%**		**0.0%**						**29.2%**			**33.2%**
5														
6	Surplus/ Deficit	**-2.7%**		**-3.5%**						**6.3%**			**0.0%**	
7														
8														
9	**Ch Foreign claims, net**				**7.1%**	**0.7%**		**7.0%**				**14.3%**	**7.7%**	**21.3%**
10														
11	Ch Foreign Assets				**7.0%**	**0.7%**		**7.1%**				**18.4%**	**7.8%**	**25.4%**
12	Ch Foreign Liabilities			**-0.1%**			**0.0%**	**0.0%**	**0.1%**			**-4.1%**	**-0.1%**	**-4.0%**
13														
14	**Ch Interbank Claims**						**-0.1%**	**0.1%**				**-0.1%**	**0.1%**	**-0.2%**
15														
16	Ch Mon auth credit to DMB					**0.9%**			**0.6%**			**0.0%**	**0.9%**	**0.6%**
17	Ch Bank Reserves						**0.8%**	**0.8%**				**0.0%**	**0.8%**	**0.8%**
18														
19	**Ch Central gov debt**		**0.1%**			**0.9%**		**-1.7%**		**-1.7%**		**-2.3%**	**1.2%**	**-2.2%**
20														
21	Ch Claims on cen gov		**0.1%**			**0.1%**		**0.2%**		**-1.7%**		**2.4%**	**-1.4%**	**2.5%**
22	Ch Cen gov deposits	**-1.3%**					**-0.8%**		**2.1%**			**-4.6%**		
23														
24	**Ch Private credit, net**	**2.2%**		**5.7%**		**0.0%**		**9.7%**			**17.7%**		**17.7%**	**17.7%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**2.2%**		**5.7%**			**0.0%**	**9.7%**	**0.0%**	**0.0%**	**17.7%**		**17.7%**	**17.7%**
28														
29	**Ch Money and quasi money**						**2.5%**		**9.2%**	**11.7%**			**11.7%**	**11.7%**
30														
31	Ch Curr and demand deposits						**2.5%**		**2.6%**	**5.1%**			**5.1%**	**5.1%**
32	Ch Time, savings dep								**6.5%**	**6.5%**			**6.5%**	**6.5%**
33														
34	**Misc and discrepancy**		**0.0%**	**-2.2%**			**-0.8%**		**2.7%**		**7.9%**	**-11.9%**	**-2.2%**	**-2.2%**
35														
36														
37	**Total**	**8.9%**	**4.1%**	**7.2%**	**3.5%**	**1.6%**	**1.6%**	**10.3%**	**11.8%**	**32.9%**	**54.7%**	**0.0%**		
38														
39														
40														

	2001													
	% of GDP	Cen Gov (K1)		RoW (K2)		Mon Auth (K3)		Dep Money 'banks flow' (K4)		Private Sector (K6,K7)		Disc Sources (K5	Total	
		U	S	U	S	U	S	U	S	U	S		U	S
1														
2	**Gross Capital Formation**	8.4%								22.8%			31.2%	
3														
4	**Gross Saving**		5.6%		0.0%						27.7%			33.3%
5														
6	Surplus/ Deficit	-2.8%		-2.1%						4.8%			0.0%	
7														
8														
9	**Ch Foreign claims, net**				4.3%	1.0%		3.7%				20.0%	4.7%	24.3%
10														
11	Ch Foreign Assets				4.5%	1.2%		3.8%				23.8%	5.0%	28.3%
12	Ch Foreign Liabilities			0.2%			0.2%	0.0%	0.1%			-3.8%	0.2%	-3.5%
13														
14	**Ch Interbank Claims**						-1.1%	-1.1%				0.0%	-1.1%	-1.2%
15														
16	Ch Mon auth credit to DMB					0.7%			0.7%			0.0%	0.7%	0.7%
17	Ch Bank Reserves						-0.4%	-0.4%				0.0%	-0.4%	-0.4%
18														
19	**Ch Central gov debt**		0.1%			0.8%		-0.2%		-3.4%		-5.2%	-0.8%	-5.0%
20														
21	Ch Claims on cen gov		0.1%			0.1%		0.4%		-3.4%		-0.9%	-2.8%	-0.8%
22	Ch Cen gov deposits	0.0%					-0.6%		0.7%			-4.3%		
23														
24	**Ch Private credit, net**	2.2%		4.8%		0.0%		6.9%			13.9%		13.9%	13.9%
25														
26	Ch Claims on nonbank FI					0.0%		0.0%						
27	Ch Other private credit	2.2%		4.8%			0.0%	6.9%	0.0%	0.0%	13.9%		13.9%	13.9%
28														
29	**Ch Money and quasi money**						2.9%		8.3%	11.2%			11.2%	11.2%
30														
31	Ch Curr and demand deposits						2.9%		1.5%	4.5%			4.5%	4.5%
32	Ch Time, savings dep								6.7%	6.7%			6.7%	6.7%
33														
34	**Misc and discrepancy**		0.0%	-2.6%			0.0%		2.4%		9.7%	-14.7%	-2.6%	-2.6%
35														
36														
37	**Total**	10.6%	5.7%	4.2%	2.2%	1.8%	1.8%	9.5%	10.7%	30.6%	51.3%	0.0%		
38														
39														
40														

	2002 % of GDP	Cen Gov (K1) U	 S	RoW (K2) U	 S	Mon Auth (K3) U	 S	Dep Money 'banks flow' (K4) U	 S	Private Sector (K6,K7) U	 S	Disc Sources (K5)	Total U	 S
1														
2	**Gross Capital Formation**	**8.4%**								**24.8%**			**33.2%**	
3														
4	**Gross Saving**		**6.3%**		**0.0%**						**25.2%**			**31.5%**
5														
6	Surplus/ Deficit	**-2.1%**		**1.7%**						**0.4%**			**0.0%**	
7														
8														
9	**Ch Foreign claims, net**				**-0.5%**	**1.5%**		**-1.6%**				**22.2%**	**-0.1%**	**21.7%**
10														
11	Ch Foreign Assets				**-0.5%**	**1.6%**		**-1.6%**				**25.9%**	**-0.1%**	**25.3%**
12	Ch Foreign Liabilities			**0.0%**			**0.1%**	**0.0%**	**-0.1%**			**-3.7%**	**0.0%**	**-3.6%**
13														
14	**Ch Interbank Claims**						**0.2%**	**0.0%**				**-0.2%**	**0.0%**	**0.0%**
15														
16	Ch Mon auth credit to DMB					**0.3%**			**0.3%**			**0.0%**	**0.3%**	**0.3%**
17	Ch Bank Reserves						**0.5%**	**0.3%**				**-0.2%**	**0.3%**	**0.3%**
18														
19	**Ch Central gov debt**		**0.5%**			**0.6%**		**0.7%**		**-4.0%**		**-5.2%**	**-0.8%**	**-4.7%**
20														
21	Ch Claims on cen gov		**0.5%**			**0.5%**		**0.4%**		**-4.0%**		**-0.7%**	**-3.1%**	**-0.2%**
22	Ch Cen gov deposits	**-0.6%**					**-0.1%**		**0.7%**			**-4.5%**		
23														
24	**Ch Private credit, net**	**2.4%**		**4.2%**		**0.0%**		**7.8%**			**14.4%**		**14.4%**	**14.4%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**2.4%**		**4.2%**			**0.0%**	**7.8%**	**0.0%**	**0.0%**	**14.4%**		**14.4%**	**14.4%**
28														
29	**Ch Money and quasi money**						**1.5%**		**4.7%**	**6.2%**			**6.2%**	**6.2%**
30														
31	Ch Curr and demand deposits						**1.5%**		**0.9%**	**2.4%**			**2.4%**	**2.4%**
32	Ch Time, savings dep								**3.8%**	**3.8%**			**3.8%**	**3.8%**
33														
34	**Misc and discrepancy**		**0.0%**	**-3.0%**			**0.3%**		**2.2%**		**11.3%**	**-16.8%**	**-3.0%**	**-3.0%**
35														
36														
37	**Total**	**10.8%**	**6.8%**	**3.1%**	**1.2%**	**2.0%**	**2.0%**	**8.5%**	**6.9%**	**27.0%**	**50.9%**	**0.0%**		
38														
39														
40														

	2003 % of GDP	Cen Gov (K1) U	S	RoW (K2) U	S	Mon Auth (K3) U	S	Dep Money 'banks flow' (K4) U	S	Private Sector (K6,K7) U	S	Disc Sources (K5)	Total U	S
1														
2	**Gross Capital Formation**	**9.7%**								**25.7%**			**35.4%**	
3														
4	**Gross Saving**		**5.4%**		**0.0%**						**25.1%**			**30.6%**
5														
6	Surplus/ Deficit	**-4.3%**		**4.9%**						**-0.6%**			**0.0%**	
7														
8														
9	**Ch Foreign claims, net**				**2.0%**	**5.6%**		**-3.4%**				**19.2%**	**2.2%**	**21.1%**
10														
11	Ch Foreign Assets				**1.8%**	**5.6%**		**-3.3%**				**22.6%**	**2.3%**	**24.4%**
12	Ch Foreign Liabilities			**-0.1%**			**0.0%**	**0.0%**	**0.1%**			**-3.4%**	**-0.1%**	**-3.3%**
13														
14	**Ch Interbank Claims**						**2.5%**	**2.5%**				**-0.2%**	**2.5%**	**2.3%**
15														
16	Ch Mon auth credit to DMB					**-0.9%**			**-0.8%**			**-0.2%**	**-0.9%**	**-0.9%**
17	Ch Bank Reserves						**1.6%**	**1.7%**				**0.0%**	**1.7%**	**1.6%**
18														
19	**Ch Central gov debt**		**-20.1%**			**-0.1%**		**2.1%**		**-7.9%**		**12.6%**	**-3.6%**	**-7.5%**
20														
21	Ch Claims on cen gov		**0.0%**			**0.0%**		**1.2%**		**-7.9%**		**-2.9%**	**-6.7%**	**-2.9%**
22	Ch Cen gov deposits	**-0.7%**					**0.1%**		**0.6%**			**15.5%**		
23														
24	**Ch Private credit, net**	**2.9%**		**4.8%**		**0.0%**		**10.7%**			**18.4%**		**18.4%**	**18.4%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**2.9%**		**4.8%**			**0.0%**	**10.7%**	**0.0%**	**0.0%**	**18.4%**		**18.4%**	**18.4%**
28														
29	**Ch Money and quasi money**						**2.7%**		**12.6%**	**15.3%**			**15.3%**	**15.3%**
30														
31	Ch Curr and demand deposits						**2.7%**		**2.5%**	**5.2%**			**5.2%**	**5.2%**
32	Ch Time, savings dep								**10.1%**	**10.1%**			**10.1%**	**10.1%**
33														
34	**Misc and discrepancy**		**20.1%**	**2.0%**			**0.4%**		**1.9%**		**11.2%**	**-31.6%**	**2.0%**	**2.0%**
35														
36														
37	**Total**	**12.6%**	**-14.6%**	**9.1%**	**6.8%**	**5.5%**	**5.5%**	**7.4%**	**14.6%**	**33.2%**	**54.7%**	**0.0%**		
38														
39														
40														

2004

	% of GDP	Cen Gov (K1) U	Cen Gov (K1) S	RoW (K2) U	RoW (K2) S	Mon Auth (K3) U	Mon Auth (K3) S	Dep Money 'banks flow' (K4) U	Dep Money 'banks flow' (K4) S	Private Sector (K6,K7) U	Private Sector (K6,K7) S	Disc Sources (K5)	Total U	Total S
1														
2	**Gross Capital Formation**	9.2%								26.2%			35.5%	
3														
4	**Gross Saving**		8.9%		0.0%						24.5%			33.4%
5														
6	Surplus/ Deficit	-0.4%		2.1%						-1.7%			0.0%	
7														
8														
9	**Ch Foreign claims, net**				2.0%	2.0%		-0.1%				18.1%	2.0%	20.1%
10														
11	Ch Foreign Assets				1.7%	1.9%		1.1%				22.3%	3.0%	24.0%
12	Ch Foreign Liabilities			-0.3%			-0.1%	0.0%	1.1%			-4.2%	-0.3%	-3.1%
13														
14	**Ch Interbank Claims**						0.0%	-0.2%				-0.4%	-0.2%	-0.4%
15														
16	Ch Mon auth credit to DMB					0.1%			0.3%			-0.3%	0.1%	0.0%
17	Ch Bank Reserves						0.1%	0.1%				-0.1%	0.1%	0.1%
18														
19	**Ch Central gov debt**		3.5%			0.1%		0.2%		-2.3%		-7.7%	-0.2%	-4.1%
20														
21	Ch Claims on cen gov		0.8%			0.8%		2.3%		-2.3%		0.9%	0.8%	1.7%
22	Ch Cen gov deposits	-1.9%					0.7%		1.2%			-8.6%		
23														
24	**Ch Private credit, net**	2.4%		6.1%		0.0%		17.2%			25.8%		25.8%	25.8%
25														
26	Ch Claims on nonbank FI					0.0%		0.0%						
27	Ch Other private credit	2.4%		6.1%			0.0%	17.2%	0.0%	0.0%	25.8%		25.8%	25.8%
28														
29	**Ch Money and quasi money**						2.6%		13.8%	16.4%			16.4%	16.4%
30														
31	Ch Curr and demand deposits						2.6%		3.1%	5.7%			5.7%	5.7%
32	Ch Time, savings dep								10.7%	10.7%			10.7%	10.7%
33														
34	**Misc and discrepancy**		-20.0%	-2.0%			-0.5%		1.6%		26.9%	-10.1%	-2.0%	-2.0%
35														
36														
37	**Total**	11.7%	12.4%	5.9%	4.1%	2.1%	2.1%	6.4%	15.5%	40.3%	77.1%	0.0%		
38														
39														
40														

	2005	Cen Gov (K1)		RoW (K2)		Mon Auth (K3)		Dep Money 'banks flow' (K4)		Private Sector (K6,K7)		Disc Sources (K5	Total	
	% of GDP	U	S	U	S	U	S	U	S	U	S		U	S
1														
2	**Gross Capital Formation**	**9.4%**								**26.1%**			**35.6%**	
3														
4	**Gross Saving**		**7.3%**		**0.0%**						**27.2%**			**34.5%**
5														
6	Surplus/ Deficit	**-2.1%**		**1.1%**						**1.1%**			**0.0%**	
7														
8														
9	**Ch Foreign claims, net**				**5.2%**	**4.2%**		**1.0%**				**17.1%**	**5.2%**	**22.3%**
10														
11	Ch Foreign Assets				**5.1%**	**4.0%**		**1.6%**				**20.8%**	**5.5%**	**26.0%**
12	Ch Foreign Liabilities			**-0.1%**			**-0.2%**	**0.0%**	**0.5%**			**-3.7%**	**-0.1%**	**-3.4%**
13														
14	**Ch Interbank Claims**						**1.7%**	**0.8%**				**-1.2%**	**0.8%**	**0.5%**
15														
16	Ch Mon auth credit to DMB					**-0.4%**			**0.5%**			**-1.2%**	**-0.4%**	**-0.7%**
17	Ch Bank Reserves						**1.3%**	**1.3%**				**0.0%**	**1.3%**	**1.3%**
18														
19	**Ch Central gov debt**		**-0.5%**			**-0.4%**		**3.0%**		**-6.1%**		**-5.4%**	**-0.9%**	**-5.9%**
20														
21	Ch Claims on cen gov		**-0.5%**			**-0.5%**		**1.2%**		**-6.1%**		**-0.3%**	**-5.4%**	**-0.8%**
22	Ch Cen gov deposits	**-0.1%**					**-0.1%**		**0.2%**			**-5.1%**		
23														
24	**Ch Private credit, net**	**2.4%**		**7.0%**		**0.0%**		**15.8%**			**25.2%**		**25.2%**	**25.2%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**2.4%**		**7.0%**			**0.0%**	**15.8%**	**0.0%**	**0.0%**	**25.2%**		**25.2%**	**25.2%**
28														
29	**Ch Money and quasi money**						**2.6%**		**15.6%**	**18.2%**			**18.2%**	**18.2%**
30														
31	Ch Curr and demand deposits						**2.6%**		**2.6%**	**5.2%**			**5.2%**	**5.2%**
32	Ch Time, savings dep								**13.0%**	**13.0%**			**13.0%**	**13.0%**
33														
34	**Misc and discrepancy**		**0.0%**	**-0.7%**			**-0.6%**		**1.4%**		**8.9%**	**-10.5%**	**-0.7%**	**-0.7%**
35														
36														
37	**Total**	**11.8%**	**6.8%**	**8.8%**	**6.3%**	**3.7%**	**3.7%**	**5.4%**	**17.0%**	**38.3%**	**61.4%**	**0.0%**		
38														
39														
40														

	2006													
	% of GDP	Cen Gov (K1)		RoW (K2)		Mon Auth (K3)		Dep Money 'banks flow' (K4)		Private Sector (K6,K7)		Disc Sources (K5)	Total	
		U	S	U	S	U	S	U	S	U	S		U	S
1														
2	**Gross Capital Formation**	**9.1%**								**27.7%**			**36.8%**	
3														
4	**Gross Saving**		**9.2%**		**0.0%**						**27.4%**			**36.5%**
5														
6	Surplus/ Deficit	**0.1%**		**0.3%**						**-0.4%**			**0.0%**	
7														
8														
9	**Ch Foreign claims, net**				**9.6%**	**7.3%**		**1.9%**				**18.8%**	**9.2%**	**28.5%**
10														
11	Ch Foreign Assets				**9.6%**	**7.3%**		**2.9%**				**23.0%**	**10.2%**	**32.6%**
12	Ch Foreign Liabilities			**-0.1%**			**0.0%**	**0.0%**	**1.0%**			**-4.2%**	**-0.1%**	**-3.2%**
13														
14	**Ch Interbank Claims**						**3.2%**	**2.4%**				**-1.9%**	**2.4%**	**1.4%**
15														
16	Ch Mon auth credit to DMB					**-0.3%**			**0.5%**			**-1.8%**	**-0.3%**	**-1.3%**
17	Ch Bank Reserves						**2.9%**	**2.9%**				**-0.1%**	**2.9%**	**2.9%**
18														
19	**Ch Central gov debt**		**-6.2%**			**-1.5%**		**1.1%**		**-2.8%**		**0.0%**	**-1.8%**	**-6.2%**
20														
21	Ch Claims on cen gov		**0.5%**			**0.5%**		**2.8%**		**-2.8%**		**0.0%**	**0.5%**	**0.4%**
22	Ch Cen gov deposits	**-2.3%**					**2.0%**		**0.3%**			**0.0%**		
23														
24	**Ch Private credit, net**	**0.5%**		**7.6%**		**0.0%**		**14.5%**			**22.6%**		**22.6%**	**22.6%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**0.5%**		**7.6%**			**0.0%**	**14.5%**	**0.0%**	**0.0%**	**22.6%**		**22.6%**	**22.6%**
28														
29	**Ch Money and quasi money**						**2.8%**		**16.9%**	**19.8%**			**19.8%**	**19.8%**
30														
31	Ch Curr and demand deposits						**2.8%**		**2.3%**	**5.2%**			**5.2%**	**5.2%**
32	Ch Time, savings dep								**14.6%**	**14.6%**			**14.6%**	**14.6%**
33														
34	**Misc and discrepancy**		**6.6%**	**2.3%**			**-0.4%**		**1.2%**		**11.8%**	**-17.0%**	**2.3%**	**2.3%**
35														
36														
37	**Total**	**9.6%**	**3.0%**	**11.3%**	**9.9%**	**5.8%**	**5.6%**	**4.7%**	**18.1%**	**44.7%**	**61.8%**	**0.0%**		
38														
39														
40														

	2007 % of GDP	Cen Gov (K1) U	Cen Gov (K1) S	RoW (K2) U	RoW (K2) S	Mon Auth (K3) U	Mon Auth (K3) S	Dep Money 'banks flow' (K4) U	Dep Money 'banks flow' (K4) S	Private Sector (K6,K7) U	Private Sector (K6,K7) S	Disc Sources (K5)	Total U	Total S
1														
2	**Gross Capital Formation**	**9.8%**								**33.3%**			**43.1%**	
3														
4	**Gross Saving**		**7.6%**		**0.0%**						**25.7%**			**33.3%**
5														
6	Surplus/ Deficit	**-2.2%**		**9.8%**						**-7.6%**			**0.0%**	
7														
8														
9	**Ch Foreign claims, net**				**10.7%**	**14.4%**		**-3.7%**				**24.3%**	**10.7%**	**35.0%**
10														
11	Ch Foreign Assets				**10.6%**	**14.4%**		**-1.7%**				**29.8%**	**12.7%**	**40.5%**
12	Ch Foreign Liabilities			**0.0%**			**0.0%**	**0.0%**	**2.0%**			**-5.6%**	**0.0%**	**-3.6%**
13														
14	**Ch Interbank Claims**						**1.4%**	**2.1%**				**-0.9%**	**2.1%**	**0.5%**
15														
16	Ch Mon auth credit to DMB					**0.7%**			**-0.1%**			**-0.8%**	**0.7%**	**-0.9%**
17	Ch Bank Reserves						**2.0%**	**2.0%**				**-0.1%**	**2.0%**	**1.9%**
18														
19	**Ch Central gov debt**		**-2.9%**			**-2.0%**		**1.3%**		**-3.8%**		**-5.9%**	**-3.2%**	**-8.9%**
20														
21	Ch Claims on cen gov		**-0.8%**			**-0.8%**		**1.1%**		**-3.8%**		**-0.3%**	**-3.4%**	**-1.0%**
22	Ch Cen gov deposits	**-2.2%**					**1.2%**		**1.0%**			**-5.7%**		
23														
24	**Ch Private credit, net**	**-0.3%**		**21.3%**		**0.0%**		**32.7%**			**53.7%**		**53.7%**	**53.7%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**-0.3%**		**21.3%**			**0.0%**	**32.7%**	**0.0%**	**0.0%**	**53.7%**		**53.7%**	**53.7%**
28														
29	**Ch Money and quasi money**						**5.4%**		**30.7%**	**36.1%**			**36.1%**	**36.1%**
30														
31	Ch Curr and demand deposits						**5.4%**		**7.1%**	**12.5%**			**12.5%**	**12.5%**
32	Ch Time, savings dep								**23.6%**	**23.6%**			**23.6%**	**23.6%**
33														
34	**Misc and discrepancy**		**-3.5%**	**-0.8%**			**-0.2%**		**1.0%**		**19.3%**	**-17.4%**	**-0.8%**	**-0.8%**
35														
36														
37	**Total**	**9.5%**	**4.7%**	**21.8%**	**20.5%**	**12.4%**	**6.6%**	**4.0%**	**31.7%**	**65.6%**	**98.7%**	**0.0%**		
38														
39														
40														

2008 % of GDP	Cen Gov (K1) U	Cen Gov (K1) S	RoW (K2) U	RoW (K2) S	Mon Auth (K3) U	Mon Auth (K3) S	Dep Money 'banks flow' (K4) U	Dep Money 'banks flow' (K4) S	Private Sector (K6,K7) U	Private Sector (K6,K7) S	Disc Sources (K5)	Total U	Total S
1													
2 Gross Capital Formation	**9.7%**								**25.7%**			**35.4%**	
3													
4 Gross Saving		**5.4%**		**0.0%**						**25.1%**			**30.6%**
5													
6 Surplus/ Deficit	**-4.3%**		**4.9%**						**-0.6%**			**0.0%**	
7													
8													
9 Ch Foreign claims, net				**2.0%**	**5.6%**		**-3.4%**				**19.2%**	**2.2%**	**21.1%**
10													
11 Ch Foreign Assets				**1.8%**	**5.6%**		**-3.3%**				**22.6%**	**2.3%**	**24.4%**
12 Ch Foreign Liabilities			**-0.1%**			**0.0%**	**0.0%**	**0.1%**			**-3.4%**	**-0.1%**	**-3.3%**
13													
14 Ch Interbank Claims						**2.5%**	**2.5%**				**-0.2%**	**2.5%**	**2.3%**
15													
16 Ch Mon auth credit to DMB					**-0.9%**			**-0.8%**			**-0.2%**	**-0.9%**	**-0.9%**
17 Ch Bank Reserves						**1.6%**	**1.7%**				**0.0%**	**1.7%**	**1.6%**
18													
19 Ch Central gov debt		**-20.1%**			**-0.1%**		**2.1%**		**-7.9%**		**12.6%**	**-3.6%**	**-7.5%**
20													
21 Ch Claims on cen gov		**0.0%**			**0.0%**		**1.2%**		**-7.9%**		**-2.9%**	**-6.7%**	**-2.9%**
22 Ch Cen gov deposits	**-0.7%**					**0.1%**		**0.6%**			**15.5%**		
23													
24 Ch Private credit, net	**2.9%**		**4.8%**		**0.0%**		**10.7%**			**18.4%**		**18.4%**	**18.4%**
25													
26 Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27 Ch Other private credit	**2.9%**		**4.8%**			**0.0%**	**10.7%**	**0.0%**	**0.0%**	**18.4%**		**18.4%**	**18.4%**
28													
29 Ch Money and quasi money						**2.7%**		**12.6%**	**15.3%**			**15.3%**	**15.3%**
30													
31 Ch Curr and demand deposits						**2.7%**		**2.5%**	**5.2%**			**5.2%**	**5.2%**
32 Ch Time, savings dep								**10.1%**	**10.1%**			**10.1%**	**10.1%**
33													
34 Misc and discrepancy		**20.1%**	**2.0%**			**0.4%**		**1.9%**		**11.2%**	**-31.6%**	**2.0%**	**2.0%**
35													
36													
37 Total	**12.6%**	**-14.6%**	**9.1%**	**6.8%**	**5.5%**	**5.5%**	**7.4%**	**14.6%**	**33.2%**	**54.7%**	**0.0%**		
38													
39													
40													

	2009 % of GDP	Cen Gov (K1) U	S	RoW (K2) U	S	Mon Auth (K3) U	S	Dep Money 'banks flow' (K4) U	S	Private Sector (K6,K7) U	S	Disc Sources (K5)	Total U	S
1														
2	**Gross Capital Formation**	**13.6%**								**24.5%**			**38.1%**	
3														
4	**Gross Saving**		**6.9%**		**0.0%**						**24.4%**			**31.3%**
5														
6	Surplus/ Deficit	**0.0%**		**6.8%**						**-0.1%**			**6.7%**	
7														
8														
9	**Ch Foreign claims, net**				**-9.0%**	**-7.5%**		**0.3%**				**26.3%**	**-7.1%**	**17.3%**
10														
11	Ch Foreign Assets				**-8.6%**	**-6.6%**		**2.5%**				**34.7%**	**-4.1%**	**26.1%**
12	Ch Foreign Liabilities			**0.4%**			**0.9%**	**0.0%**	**2.2%**			**-8.3%**	**0.4%**	**-5.3%**
13														
14	**Ch Interbank Claims**						**-3.1%**	**-5.6%**				**-3.0%**	**-5.6%**	**-6.0%**
15														
16	Ch Mon auth credit to DMB					**2.3%**			**4.9%**			**-2.9%**	**2.3%**	**2.0%**
17	Ch Bank Reserves						**-0.8%**	**-0.7%**				**-0.1%**	**-0.7%**	**-0.9%**
18														
19	**Ch Central gov debt**		**3.1%**			**6.0%**		**0.4%**		**-0.3%**		**-3.1%**	**6.1%**	**0.0%**
20														
21	Ch Claims on cen gov		**3.8%**			**3.8%**		**2.6%**		**-0.3%**		**0.0%**	**6.1%**	**3.8%**
22	Ch Cen gov deposits	**0.7%**					**-2.2%**		**-0.1%**			**-3.1%**		
23														
24	**Ch Private credit, net**	**0.0%**		**7.1%**		**0.0%**		**31.9%**			**39.0%**		**39.0%**	**39.0%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**0.0%**		**7.1%**			**0.0%**	**31.9%**	**0.0%**	**0.0%**	**39.0%**		**39.0%**	**39.0%**
28														
29	**Ch Money and quasi money**						**3.4%**		**20.5%**	**23.9%**			**23.9%**	**23.9%**
30														
31	Ch Curr and demand deposits						**3.4%**		**4.6%**	**8.0%**			**8.0%**	**8.0%**
32	Ch Time, savings dep								**16.0%**	**16.0%**			**16.0%**	**16.0%**
33														
34	**Misc and discrepancy**		**0.1%**	**-9.3%**			**-0.3%**		**0.7%**		**10.5%**	**-20.3%**	**-9.3%**	**-9.3%**
35														
36														
37	**Total**	**13.6%**	**10.0%**	**-2.2%**	**-2.2%**	**-1.5%**	**0.0%**	**2.8%**	**21.2%**	**48.1%**	**74.0%**	**0.0%**		
38														
39														
40														

	2010 % of GDP	Cen Gov (K1) U	S	RoW (K2) U	S	Mon Auth (K3) U	S	Dep Money 'banks flow' (K4) U	S	Private Sector (K6,K7) U	S	Disc Sources (K5)	Total U	S
1														
2	**Gross Capital Formation**	**13.4%**								**33.1%**			**46.4%**	
3														
4	**Gross Saving**		**9.1%**		**0.0%**						**32.6%**			**41.6%**
5														
6	Surplus/ Deficit	**0.0%**		**4.8%**						**-0.5%**			**4.3%**	
7														
8														
9	**Ch Foreign claims, net**				**-1.4%**	**-3.5%**		**-0.3%**				**14.9%**	**-3.8%**	**13.5%**
10														
11	Ch Foreign Assets				**-1.5%**	**-3.4%**		**2.7%**				**26.7%**	**-0.8%**	**25.3%**
12	Ch Foreign Liabilities			**0.0%**			**0.0%**	**0.0%**	**3.0%**			**-11.8%**	**0.0%**	**-8.8%**
13														
14	**Ch Interbank Claims**						**-6.3%**	**-7.2%**				**-3.9%**	**-7.2%**	**-10.2%**
15														
16	Ch Mon auth credit to DMB					**4.6%**			**5.5%**			**-3.7%**	**4.6%**	**1.7%**
17	Ch Bank Reserves						**-1.6%**	**-1.7%**				**-0.1%**	**-1.7%**	**-1.8%**
18														
19	**Ch Central gov debt**		**3.0%**			**0.4%**		**2.3%**		**-2.6%**		**-6.8%**	**0.0%**	**-3.8%**
20														
21	Ch Claims on cen gov		**0.4%**			**0.4%**		**2.6%**		**-2.6%**		**0.0%**	**0.3%**	**0.4%**
22	Ch Cen gov deposits	**-2.6%**					**0.0%**		**0.4%**			**-6.8%**		
23														
24	**Ch Private credit, net**	**0.0%**		**7.5%**		**0.0%**		**36.6%**			**44.1%**		**44.1%**	**44.1%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**0.0%**		**7.5%**			**0.0%**	**36.6%**	**0.0%**	**0.0%**	**44.1%**		**44.1%**	**44.1%**
28														
29	**Ch Money and quasi money**						**2.7%**		**31.5%**	**34.2%**			**34.2%**	**34.2%**
30														
31	Ch Curr and demand deposits						**2.7%**		**0.9%**	**3.6%**			**3.6%**	**3.6%**
32	Ch Time, savings dep								**30.6%**	**30.6%**			**30.6%**	**30.6%**
33														
34	**Misc and discrepancy**		**-3.3%**	**-4.1%**			**0.5%**		**0.7%**		**2.2%**	**-4.2%**	**-4.1%**	**-4.1%**
35														
36														
37	**Total**	**13.4%**	**12.1%**	**3.4%**	**3.4%**	**-3.1%**	**-3.1%**	**2.8%**	**32.2%**	**64.7%**	**78.9%**	**0.0%**		
38														
39														
40														

	2011 % of GDP	Cen Gov (K1) U	S	RoW (K2) U	S	Mon Auth (K3) U	S	Dep Money 'banks flow' (K4) U	S	Private Sector (K6,K7) U	S	Disc Sources (K5)	Total U	S
1														
2	**Gross Capital Formation**	**13.0%**								**36.9%**			**49.9%**	
3														
4	**Gross Saving**		**10.0%**		**0.0%**						**40.2%**			**50.2%**
5														
6	Surplus/ Deficit	**0.0%**		**-0.3%**						**3.3%**			**3.0%**	
7														
8														
9	**Ch Foreign claims, net**				**0.8%**	**2.8%**		**-0.3%**				**15.2%**	**2.5%**	**16.1%**
10														
11	Ch Foreign Assets				**0.8%**	**2.9%**		**1.4%**				**28.8%**	**4.3%**	**29.6%**
12	Ch Foreign Liabilities			**0.0%**			**0.1%**	**0.0%**	**1.7%**			**-13.5%**	**0.0%**	**-11.8%**
13														
14	**Ch Interbank Claims**						**1.5%**	**1.6%**				**-3.8%**	**1.6%**	**-2.3%**
15														
16	Ch Mon auth credit to DMB					**1.5%**			**1.6%**			**-3.8%**	**1.5%**	**-2.2%**
17	Ch Bank Reserves						**3.0%**	**3.2%**				**0.0%**	**3.2%**	**3.0%**
18														
19	**Ch Central gov debt**		**-1.9%**			**-1.6%**		**2.8%**		**-3.4%**		**-4.6%**	**-2.3%**	**-6.5%**
20														
21	Ch Claims on cen gov		**-1.6%**			**-1.6%**		**2.6%**		**-3.4%**		**0.0%**	**-2.5%**	**-1.6%**
22	Ch Cen gov deposits	**0.3%**					**0.0%**		**0.6%**			**-4.6%**		
23														
24	**Ch Private credit, net**	**0.0%**		**7.3%**		**0.0%**		**21.3%**			**28.7%**		**28.7%**	**28.7%**
25														
26	Ch Claims on nonbank FI					**0.0%**		**0.0%**						
27	Ch Other private credit	**0.0%**		**7.3%**			**0.0%**	**21.3%**	**0.0%**	**0.0%**	**28.7%**		**28.7%**	**28.7%**
28														
29	**Ch Money and quasi money**						**2.0%**		**15.9%**	**17.8%**			**17.8%**	**17.8%**
30														
31	Ch Curr and demand deposits						**2.0%**		**1.7%**	**3.7%**			**3.7%**	**3.7%**
32	Ch Time, savings dep								**14.2%**	**14.2%**			**14.2%**	**14.2%**
33														
34	**Misc and discrepancy**		**2.9%**	**-6.8%**			**-2.3%**		**0.7%**		**-1.2%**	**-6.8%**	**-6.8%**	**-6.8%**
35														
36														
37	**Total**	**13.0%**	**8.1%**	**0.5%**	**0.5%**	**1.2%**	**1.2%**	**2.8%**	**16.6%**	**51.3%**	**67.6%**	**0.0%**		
38														
39														
40														