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Assessment of Hanoi's Supporting Industry Development Policies

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Abstract

The role of supporting industries has been confirmed as being crucial in raising the competitiveness of industrial products, speeding up the industrialization process, and drawing foreign direct investment (FDI) into the industrial sector—along with the entire nation in the renovation process and in the current globalization conditions. Over the past time, Hanoi's supporting industries have demonstrated their independence in generating economic efficiency; the City's robust industry associations and supporting industry products have helped to increase the localization rate and replace imported spare parts. It makes industrial products more competitive across the country.

Nonetheless, Hanoi's industries as a whole and its supporting industries in particular continue to exhibit a number of drawbacks, including a low level of current technology and limited competitiveness compared to

imported similar products. Furthermore, a concerning circumstance is that there are no connections between major manufacturers and supporting businesses, or between domestic and foreign-invested businesses, which encourages people to "mind one's own business." The majority of local small-scale businesses are forced to dissolve or give up the game when they are unable to compete with imported goods of the same kind from neighboring nations and cannot control the market. Therefore, supporting industry companies urgently need support policies from the State to invest and develop.

This article will focus on researching supporting industry enterprises in Hanoi. The objective of the paper is to evaluate supporting industry development policies and recommend to Hanoi city the supports that supporting industry businesses want to receive.

Keywords: Foreign Direct Investment, Development Policies, Hanoi

1. Introducing supporting industry enterprises in Hanoi

Based on the surveys of industries and products of processing and manufacturing enterprises in Hanoi, derived from production results, and characteristics of production properties, it is possible to select and classify Hanoi's supporting industries into 8 main industry groups and products as follows:

1. Group of supporting industries for means of transport production.
2. Group of supporting industries for electricity, electronics and telecommunications industry.
3. Supporting industry group for textile and footwear industry.
4. Supporting industry group for label packaging: plastic packaging industry; wood and paper packaging industry; metal packaging industry.
5. Group of supporting industries for mechanical engineering: raw materials and spare parts for mechanical engineering.
6. Group of plastic rubber supporting industries.
7. Group of supporting industries for processing forest and food products.
8. Group of supporting industries for other industries: industrial chemicals; raw materials for the building materials industry, glass ceramics.

Among the 8 groups of supporting industries of Hanoi, there are 4 groups of large-scale industries: supporting industries for the mechanical industry (24.54%); supporting industries for agricultural food, and wood paper (20.77%); supporting industries for electricity, electronics, and telecommunications (14.76%); and supporting industries for other manufacturing industries (19.09%). The remaining four supporting industry groups are small-scale, with the lowest proportion of plastic rubber supporting industries accounting for 2.89%.

Supporting industry enterprises are distributed in all 30 districts, present in 406/584 wards and communes in Hanoi. The main customers of supporting industry enterprises are manufacturing enterprises, not consumers; therefore, in terms of production locations, supporting industrial enterprises have high requirements on infrastructure systems, convenient transportation, ensuring hygiene, safety, and security, not placing high requirements near densely populated areas, and commercial centers. In 11 urban districts, Hoang Mai (198 enterprises), Hai Ba Trung (144 enterprises), and Long Bien (143 enterprises) are the most concentrated districts of supporting industry enterprises, and Hoan Kiem (41 enterprises) and Tay Ho districts (37 enterprises) are the least; the suburban districts with many supporting industry enterprises are Thach That (242 enterprises), Dong Anh (195 enterprises) and Thanh Tri (154 enterprises); Phu Xuyen district (7 enterprises), Phuc Tho (6 enterprises) and Ba Vi (2 enterprises) are the least.

In recent years, the distribution area of Hanoi's supporting industry enterprises has been shifting according to the general movement of Hanoi's industry. FDI - supporting industrial enterprises are concentrated in industrial zones and clusters with relatively complete infrastructure, such as Bac Thang Long - Dong Anh Industrial park, Noi Bai - Soc Son Industrial park, and Quang Minh - Me Linh Industrial park. Most of these FDI enterprises are in the system of manufacturers of multinational industrial corporations, products made to supply FDI manufacturing and assembly enterprises in Vietnam or exported to other assembly plants of the company in other countries.

The revenue of supporting industry enterprises in Hanoi reached nearly 187 trillion VND, the average revenue of supporting industry enterprises reached over 6.1 billion VND/enterprise, while the average revenue of industrial enterprises in general was 53 billion VND/enterprise. Among the top 500 enterprises with leading revenue of Hanoi industry, there are 232 supporting industries enterprises, accounting for 46%, it can be seen that Hanoi's supporting industry has a very important position for Hanoi's industry.

In recent years, Hanoi's supporting industry has participated in exports strongly, there have been 172 export-supporting industry enterprises, with an estimated export value of 1.9 billion USD. The large export-supporting industry enterprises are mainly Japanese FDI enterprises, such as Hoya Glass Disk Company making glass dishes for computer investment, Canyon Asia Company making high-tech plastic parts, the most developed field of electrical and electronic product production with a production value of VND 99.7 trillion, accounting for 28% of the total industrial production value. Electronic products such as landlines and mobile phones of FPT and Viettel have also been assembled in Hanoi. However, Hanoi's electronics and information technology industries are mainly assembly, so although the output is large, attracting many workers, the added value is low.

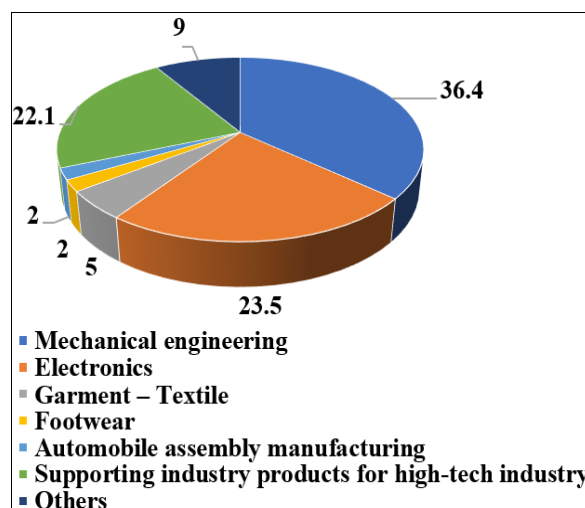
Due to the large proportion of imported components, the domestically manufactured part is too small, the output is low, so the competitiveness of the final product is low compared to many countries in the region. In addition, the weakness in management, human resource level, technology and market access is also a major limitation of Hanoi enterprises. Next, the field of mechanical engineering production value reached VND 59.5 trillion, accounting for

16.6% of industrial production value, of which the production value of motorcycles and automobiles reached VND 46.1 trillion, accounting for 12.9%. Hanoi has concentrated enterprises producing products such as structural steel, stainless steel, interior and exterior, steel doors, roofing, tanks, synchronous equipment for the oil and gas, cement, hydropower, thermal power, conductive generation, mining, radio and television industries, etc.; At the same time, Hanoi is also an area with enterprises specializing in mechanical engineering, mainly serving the motorcycle industry, and a few serving the automobile and electronics industries.

In general, the limitations of Hanoi's mechanical engineering industry are that most enterprises have low technology, lack of synchronization, closed production, overlapping investment, and low specialization and cooperation. The textile and garment sector developed quite well (production value reached VND 2.2 trillion, accounting for 0.6%), while footwear was less developed. The main textile products are tulle, wide-format fabric, face towels, and socks. The major enterprises in this sub-industry are 10/10 Textile Company, Hanosimex, 19-5, May 10, Ho Kiem Garment, Duc Giang Garment, Victory Garment, etc. In recent years, Hanoi's textile and garment industry has tended to shift to other localities because Hanoi no longer has the advantages of premises and cheap unskilled labor, etc., Which put great pressure on Hanoi's textile and garment industry.

2. Research methodology

The team uses a convenience sampling investigation method. In addition, the research team also selected a number of typical supporting industry enterprises for both questionnaire survey and interview (interview managers of enterprises about issues related to policy mechanisms, production and business activities at enterprises). 300 questionnaires were distributed, of which 200 were returned, accounting for 66.67%. Among 200 supporting industry enterprises in Hanoi participating in answering the questionnaires, mechanical engineering industry accounted for the largest proportion with 36.4% of total research sample, products for high-tech industry with 22.1%, Electronics with 23.5%, Textiles and garments with accounting for 5%, etc.



Source: Report on Survey Results

Fig 1: Proportion of main production industries in survey sample

The supporting industrial enterprises in the study sample are mainly in areas planned for production and business activities, of which the industrial parks have the larger number of enterprises with 99 (accounting for 50%), industrial clusters with 22 Enterprises (accounting for 11.11%), export processing zones with 15 Enterprises (accounting for 7.58%), Hi-Tech Park with 21 (accounting for 10.61%), the rest are located outside the above areas. industrial clusters, export processing zones, high-tech parks (see Table 2.1):

Table 1: Types of enterprises responding to surveys

Types of enterprises	Quantity (enterprises)	Rate (%)
1. Private enterprise	29	14,5
2. Partnership	38	19,0
3. JSC	27	13,5
4. State-owned enterprises	30	15,0
5. Foreign-invested enterprises	37	18,5
6. Limited Liability Company	39	19,5
Total	200	100

Source: Report on Survey Results

3. Evaluating the State's policies on supporting industry development in Hanoi

▪ **Evaluation of the State's support policies:**

According to the survey results of supporting industry enterprises in Hanoi, support policies were found to be reasonably effective by these enterprises: policies supporting the development of human resources are identified as being 3,17; policies supporting the applications, transfers, and markets development are identified as being 3.03; the only policies that are less effective are those supporting research and development, which have a decent average of 2.81.

Table 2: Evaluating the State's policies on supporting industry development in Hanoi

Support policies	N	Minimum	Maximum	Mean	Std. Deviation
1. Research and Development	200	1	5	2,81	1,064
2. Application and transfer	200	1	5	3,03	1,038
3. Human resource development	200	1	5	3,17	1,042
4. Market development	200	1	5	3,03	1,000

Source: The research team's survey results

Note: Evaluation of the State's policies to the development of supporting industries (1: Very ineffective; 2: Ineffective; 3: Relatively effective; 4: Effective; 5: Very effective)

▪ **Assessment of preferential policies of the State:**

Table 3: Assessment of the State's incentive policies on supporting industries

Incentive policies	N	Minimum	Maximum	Mean	Std. Deviation
I. General incentives					
1. Encourage supporting industry production projects	200	1	5	2,88	1,090
2. Tax exemption and reduction policy on	200	1	5	2,94	1,106

supporting industry enterprises					
3. Loan support	200	1	5	2,94	1,082
II. Incentives for Small and medium Enterprises					
1. Enjoy preferential loans compared to other businesses	200	1	5	2,95	1,102
2. Exemption or reduction of land and water surface rent	200	1	5	3,25	1,116

Source: The research team's survey results

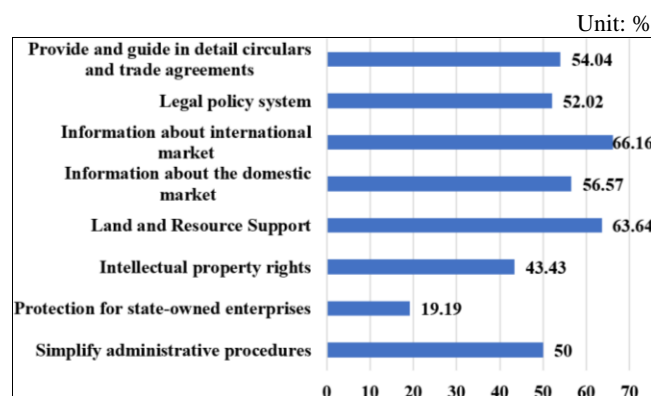
Note: Evaluation of the State's policies to the development of supporting industries (1: Very ineffective; 2: Ineffective; 3: Relatively effective; 4: Effective; 5: Very effective)

For general incentives: The survey results show that supporting industry enterprises in Hanoi evaluated preferential policies as relatively effective, but there are still some limitations: the first preferential policy, "Encouraging projects to produce supporting industry products" is assessed at 2.88/5 points; the second preferential policy, "Tax exemption and reduction policies for supporting industry enterprises" and the third preferential policy "Loan support" are both assessed at 2.94/5 points.

In terms of small- and medium-sized business preferential policies: The second preferential policy, "Exemption and reduction of land and water surface rent," is deemed to be quite effective (3.25/5 points); The first preferential policy, "Enjoying preferential loans compared to other enterprises," is deemed to be relatively effective (2.95/5 points).

▪ **Assessment of issues related to integration policy:**

For the Government: According to survey data from supporting industry enterprises, businesses expect the government to support and provide them information primarily about the following aspects of trade agreements: information about foreign markets made up the largest percentage (66.16%), followed by land and resource support (63.64%), and information on state-owned enterprise protection (19.19%) was the least.

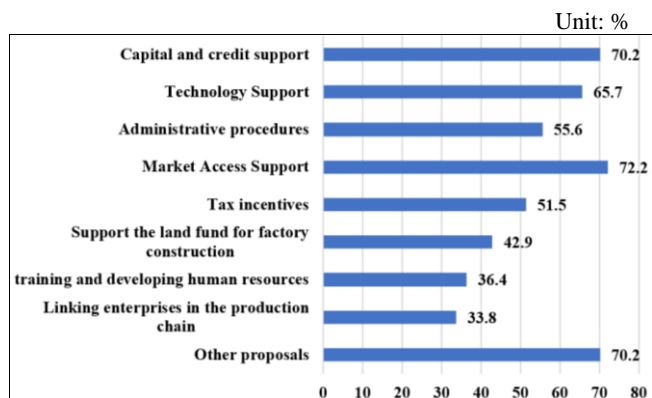


Source: The research team's survey results

Fig 2: Businesses' desires for the government to carry out trade agreements

For City authorities: The majority of proposals for helping supporting industrial enterprises focused on market access support (72.22%), which was followed by capital and credit support (70.2%); the lowest percentages were on issues relating to training and developing human resources

(36.36%) and connecting enterprises in the production chain (33.84%).



Source: The research team’s survey results

Fig 3: Enterprises' desire to get support from Hanoi city

On the other hand, in the process of international economic integration, supporting industry enterprises also need the support of the Government, local leaders and concerned ministries and branches for the following main contents:

Table 4: Supports from the Government, ministries, branches and localities get attention of supporting industry enterprises

Survey contents	Number of respondents	Percentage (%)
Training in knowledge of international economics, foreign trade skills, international commercial law, foreign languages, and other necessary skills	72	36,36
Dissemination of information on rights and obligations when joining in international economic organizations	104	52,53
There are two-way forms of information sharing between policy-making agencies and enterprises (periodically providing information, consulting with enterprises on policy changes/adjustments, etc.)	98	49,49
Financial and loans support measures	122	61,62
Technology Transfer Support	143	72,22
Support in management, especially risk management skills, experience in handling disputes and litigation	80	40,40
Support for trade promotion, investment and market expansion; provide market information, customers through diplomatic missions, deals	117	59,09
Promotion of e-customs procedures, e-C/O, e-tax, one-stop policy to create a common competitive advantage for the whole business community	67	33,84
Support timely notification of potential risks from sensitive markets to the business community through social networks on the Internet	89	44,95

Source: The research team’s survey results

4. Recommendations

- To facilitate management, ensure environmental safety, and draw supporting industry investors to this industrial park, preferential policies for supporting industries must be promulgated and, concurrently, localized incentives for supporting industrial parks must be implemented. This requires strong support from both the central

government and Hanoi's authorities. Formulating and promulgating policies need to address a comprehensive and synchronous mechanism.

- Adopting policies that promote investment and technology transfer, safeguard intellectual property rights, aid in market research and regulation, create good conditions for borrowing loans and factory and space rentals, and offer tax incentives to both foreign corporations and domestic businesses engaged in supporting industries are all necessary. In order to lower the cost of completed goods and enable their export, tariffs on imported components should be lowered or eliminated. Since small and medium-sized businesses and private businesses are the main players in the process of developing supporting industries, the State should also implement policies that encourage them to invest by offering tax incentives and business premises.
- Promote and introduce information about typical supporting industry products of Hanoi, supporting industry enterprises with real capacity, widely supply to manufacturers as well as put into annual trade promotion programs.
- Spread the word about Hanoi's typical supporting industry products, highlight the genuine capacity of supporting industry companies, widely provide for manufacturers, and include them in yearly trade promotion campaigns.
- Helping supporting industry enterprises locate business partners and giving them access to information about both domestic and international markets.
- Conducting "reverse" fairs, fairs and exhibitions focused on the manufacturing industry, and serving as a liaison between companies who assemble and produce finished goods and those that provide supporting industry products. Establishing connections between Hanoi's supporting industry enterprises and multinational corporations, FDI enterprises, completed product manufacturing companies, and upper-layer supply companies (with an emphasis on businesses investing in Hanoi and the Northern Key Economic Region) through mutual visits, exchange activities, seminars, and programs aimed at introducing supply and demand capacities.
- Develop a coordination mechanism between departments, branches, and enterprises, associations of supporting industry enterprises to connect Vietnam's supporting industry enterprises with FDI enterprises, multinational corporations investing in Vietnam, organizations, and industry associations.
- Investigate and create systems that enable businesses to take initiative and make decisions while the Government assumes the role of a midwife, encouraging investment in supporting industries that support businesses, particularly those with foreign investment, by offering more alluring financial incentives. Create specialized implementation assistance programs in collaboration with organizations and sectors that take part in and are connected to financial programs for supporting industry enterprises. Provide specifics on approval processes and ways to coordinate efforts between implementing departments and agencies. Lists of preferred supporting industry items should be included in legal papers pertaining to supporting industries so they can be implemented.

Forecasting and evaluating the long-term demand level in the next five to ten years of certain industries that their size can guarantee economic advantages or not is necessary in order to determine the degree of encouragement for foreign investors, particularly multinational corporations, to invest in supporting industries. Finally, financial incentives for some industries in general and supporting industries in particular can be adjusted.

- Adopt enticing policies that promote technology transfer among businesses, particularly those that are domestic and international. Renovate policies to attract FDI in the direction of increasing sanctions for technology transfer from FDI enterprises to domestic enterprises, setting requirements on energy consumption, environment, and national security of investment projects. Research and promulgate appropriate support mechanisms from the state budget to promote appropriate and modern technology transfer programs into Vietnam according to each sector, technology and development stage; formulate mechanisms and policies on financial support for following activities: technology transfer for the production of hi-tech supporting industry products; trial production of supporting industry products, investment in laboratories for supporting industry products, research and application of advanced technologies of the world to produce supporting industry products in Vietnam in general and Hanoi in particular.
- Adopt synchronized policies to enable Hanoi's supporting industry companies to join both local and international link chains, with a focus on land, information support, investment loan support, human resource training, etc.

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