

INTERNATIONAL EXPERIENCES IN PROMOTION OF LINKAGES BETWEEN DOMESTIC AND FDI ENTERPRISES AND LESSONS FOR VIETNAM

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Abstract:

In the paper, the authors present some policies which target to push up linkages between small and medium enterprises (SMEs) and foreign direct investment (FDI) enterprises in Vietnam, the status of linkages between them, analysis of experiences of Thailand, Malaysia and Chile and then some recommendations for policies to link FDI enterprises and domestic enterprises of Vietnam.

Keywords: *Foreign direct investment enterprise; Small and medium enterprise; Domestic enterprise; Cooperative linkage; Policy.*

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1. Introduction

Foreign direct investments (FDI) give positive contributions to economic development of Vietnam during recent years and become important component of the national economy of Vietnam. They are present in 19/21 sectors of the system of national economic classification, in all the 63 provinces and centrally controlled cities of Vietnam. They make a share of 25% of the total social investments (data by 2017), give contributions to growth of export values, improvement of import-export balances, broader international markets, development of infrastructure, promotion of renovation of administrative formalities and etc. However, actually there exist economic irregularities between the two separately developed economic blocks: domestic enterprises and FDI enterprises. Practice showed that the linkages and cooperation between these two economic blocks do not go in regular and natural ways. This paper will provide a certain clarification of reasons, some international references and some recommendations for settlement of problems.

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In the scope of interests of this paper, the domestic enterprises mean mainly SMEs because this type of enterprises keeps a majority position. They should get priority supports and then they could give more contributions to development of national economy. FDI enterprises mean those enterprises which have foreign components or are branches of multi-national corporations actually operating also in another countries or territories. The linkages mean here the process which governs economic relations between multi-national corporations or FDI enterprises (in roles of customers) and domestic enterprises (in roles of suppliers) in a global value chain.

2. Status of linkages between SMEs and FDI enterprises in Vietnam

The pilot program for development of suppliers in Vietnam conducted by Industry Department (Ministry of Industry and Trade - MOIT) in cooperation with World Bank has started by May 2018 and will be implemented for two years. The objectives of the project are to help domestic enterprises enhance competitive capacities, establish business activities with multi-national corporations and to help domestic enterprises move up to higher segments with higher added values in the value chain and, then, they can produce products more complex and capable to compete better in the global markets. The program attracts participation of 8 multi-national corporations in sectors of automobile industry, electro-electronic industry, energy and household goods. Among the involved partners we can see Toyota, Ford, Panasonic, Bosch and more than 40 domestic suppliers which are selected on basis of nomination by multi-national corporations and vocational associations.

The cooperation program of training of consulting experts of Vietnam in sectors of supporting industries jointly developed by MOIT and Samsung Vietnam Corporation has started by April 2018. The event marks a new progress in process of development of supporting industries of Vietnam. The program will target the objective to train 200 domestic consulting experts fully capable to provide consulting services and to re-train local suppliers in efforts to enhance competitive capacities of the sector of domestic supporting industries.

The project “Vietnam’s supporting industries and orientation to European markets” in the framework of the EU funded “European Trade Policy and Investment Support Project” (EU-MUTRAP), 2014-2017 periods, was implemented by Supporting Industry Enterprises Development Centre (SIDECE), Industrial Policy and Strategy Institute (IPSI) of Vietnam MOIT. The objectives of the project are focused on enhancement of capacities of part producers in Vietnam in orientation to meet requirements of European and international markets. Every year the project publishes the year book of

supporting industries in engineering sectors of Vietnam. By the end of the project (2017), a database was established which provides necessary information on about 200 domestic enterprises. These enterprises produce products in three sectors of supporting industries: mechanical engineering, electro-electronics and plastic-rubber. They are representative enterprises for successful participation in the producing network of FDI enterprises in Vietnam or for successful export of products.

At the same time, some other data sources provide also information on domestic suppliers such as the year books published by vocational associations, private companies or public organizations which carried out the implementation, administration and updating data and information in regular basis. For example, Vietnam Yellow Pages is one of the most popular year book in Vietnam (a product of Vietnam Post and Telecommunication (VNPT) with more than 25 years of existence in Vietnam) which provides information on 250,000 largest enterprises over the whole Vietnam. The information is provided free under form of hard copies or on-line access. Another product is the book of Vietnam enterprises under administration of Vietnam Chamber of Commerce and Industry (VCCI) which helps on-line and CD-ROM access to information of more than 30,000 enterprises over the whole country.

Also, there are some other programs and projects for supports to develop linkages between domestic enterprises and FDI enterprises which are implemented by some international organizations in Vietnam including the project “Subcontracting & Partnership Exchange” (SPX) jointly developed by UNIDO and Vietnam VCCI. In this project the standard tools of UNIDO were used for assistance to set up a network of Vietnam suppliers and multi-national corporations in sectors of machine engineering, electro-electronics, energy and plastic-rubber industries. Another project is the Program of training for export activities developed by “Import promotion center from developing countries” of the Netherlands (CBI). The program targets to support domestic enterprises of Vietnam to enhance competitive capacities in sectors of paints and plating industry, metal processing industry and some other industries for promotion of export to EU and EFTA markets. CBI develops a database of verified local suppliers which were trained carefully by European experts. Recently, JETRO edits a list of 300 top suppliers of Vietnam for introduction to Japan FDI enterprises which also targets development of cooperation and production.

Another activity to link domestic enterprises with FDI enterprises in Vietnam is to organize trade fairs in Vietnam and abroad where suppliers and customers can meet and have chances for exchanges. From views of

State administrative functions, some organizations in MOIT, Ministry of Planning and Investment (MPI) and VCCI coordinate with domestic and overseas organizations to organize every year trade fairs in various industrial and vocational sectors to offer chances for domestic suppliers and customers to meet and to explore opportunities of cooperation. Some events can be listed for illustration, namely Vietnam Industrial & Manufacturing Fair, Industrial Automation Fiesta and Robot Fiesta which are held every year in Vietnam by OMG Event Management Co. Ltd. Another chain of events including Vietnam Manufacturing Expo, Electronics Assembly, and Metalex Vietnam is also held every year in Vietnam by Reed Tradex (Thailand). The latter is the ASEAN leading exhibition organizer and is member to Reed Exhibitions - the leading event organizer of the world. The Vietnam-Japan Exhibition of Supporting Industries is organized annually in Vietnam by joint cooperation of JETRO of Japan and Trade Promotion Agency of MOIT where enterprises from Japan in roles of customers display products they want to purchase and local suppliers in roles of vendors display products they can provide.

3. Experiences from some countries

3.1. Experiences from Thailand

Policies to link domestic enterprises and FDI enterprises to enhance capacities of SMEs, particularly to orient them to the field of supporting industries are found in focus of industrial policies of Thailand. The two organizations which are in charge of these activities are Board of Investment (BOI) established by 1966 and directly led by the Prime Minister, and Bureau of Supporting Industry Development (BSID) established by 1994 and controlled by Ministry of Industry.

BOI develops “BOI Unit for Industrial Linkage Development” (BUILD) by 1992 for promotion and development of supporting industries and establishment of linkages between large enterprises including multinational corporations operating both in Thailand and abroad, and local part suppliers. These linkages target to help suppliers enhance quality of products, efficiency and productivity of production activities, and to remove barriers raised during realization of sub-contracts. BUILD targets supports through provision of services and market information and do not provide tax related favors or administrative favors.

The most remarkable results of BUILD activities are the Vendors Meet Customers Program. After the 1997 financial crisis, BUILD conducted organization of meetings and plant visits where suppliers and large enterprises can develop new transactions. Giant automobile makers such as

General Motors, Mitsubishi Motors and Toyota with their branches in Thailand participate in this program, and Fujitsu and Delta Electronics as large players in electro-electronic industry sector also participate in. In 2015, the ASEAN biggest exhibition of supporting industries - SUBCON Thailand 2015 - was held in Bangkok Center of International Exhibition and Trade with participation of more than 400 sub-contractors from Thailand, ASEAN countries and Japan. The event attracted more than 24,000 local and overseas customers from 15 countries. The world top trade marks such as Mercedes Benz, Samsung Electronics, Mitsubishi Electric and others take part in the event and interact with representatives of Thailand suppliers.

In addition, BUILD is in charge to develop and to diffuse ASEAN Supporting Industry Database (ASID) which targets development of linkages between nations-members and the global market. By August 2017, the number of enterprises in ASID is 20,198 where 13,534 suppliers come from Thailand (namely, 1,419 enterprises from automobile sector, 1,393 enterprises from electro-electronic sector and 965 enterprises from other sectors).

Through these activities, BUILD gets good reputations and becomes an organization with large influences in sectors of SMEs and public affairs. Despite of above noted success the programs of BUILD still have some problems to settle such as limited investment budgets and limited scope of activities.

During this time, BSID starts to push up actively supporting industries with supports from the Japanese Government in a series of sectors including technical supports and training activities in supporting industries, design and development of prototype products and development of the system of sub-contractors. The focus of BSID supports are production of parts for automobile industry and components for electro-electronic industry, particularly products of moulds. The Japanese Government provides BSID with supports in realization of the Project of Development of Technologies for Tools and Moulds (supports through provision of data, marketing activities, promotion for technology and investment) for development of the industry of moulds and training of experts.

In addition to programs and projects by the Government and industrial associations, many private enterprises of Thailand implement development programs of suppliers. For example, Thailand Automotive Institute (TAI) and Electrical and Electronic Institute (EEI) established by 1998 carry out tests of parts and raw materials, provide services of information, consulting and training for producers, particularly domestic ones. And also, Thailand

has many agencies and mechanisms to support domestic enterprises, particularly enterprises in sectors of supporting industries. As results, the Office for promotion of SMEs was established by 2000 for integrated coordination of activities of the above noted organizations.

Despite of certain results in development of supporting industries in sectors of automobile and electro-electronic industries, Thailand still has many works to do to intensify linkages between SMEs and FDI enterprises such as long term supports for development of capacities of SMEs or upgrading quality of products from domestic suppliers. The long term relations between multi-national corporations and SMEs require certain assurance of authentic results (which means that products by domestic suppliers must have high level of influence and competitiveness). For higher impacts, the programs to link multi-national corporations and potential domestic suppliers need to be set up and implemented with certain financial favors then allow enterprises to accumulate practical experiences, skills and technologies necessary for effective spillovers from these linkages.

3.2. Experiences from Malaysia

Malaysia focuses attentions on technological transfer through FDI channels for higher competitive capacities of domestic SMEs. This should be made through linkages and learning from FDI enterprises with global competitive capacities which operate actually in this country. In practice, Malaysia pushes up technological transfer through linkages with FDI enterprises by development of supporting industries since 1980s and 1990s. The strong growth of FDI enterprises started by end of 1980s thanks to investment sources from Japan. By this time, with higher values of Japanese Yen currency, many electro-electronic enterprises of Japan shifted their plants from Japan to Malaysia and other ASEAN countries. By end of 1980s, Malaysia started implementation of some programs for development of linkages between SMEs and FDI enterprises where the typical case was the program of development of suppliers. Here, the program for development of industrial linkages was implemented to guide SMEs to set up alliance strategies with multi-national corporations for better attraction of benefits from linking networks, technologies, training and marketing.

The Program of Development of Suppliers was implemented from 1988 with purpose to establish “anchor” companies - the nick name of large enterprises appointed by the Government to feed “suppliers” who need certain particular supports for development. Proton is the first domestic “anchor” company appointed by the Government. It has to buy pieces and parts from domestic suppliers. From another side, domestic suppliers get technical and management supports from “anchor” companies and financial

supports from the Government. By 1992, the component of electro-electronic pieces in the program was introduced and many “anchor” companies were appointed including Sapura Holding, Malaysia Telecommunication, Sharp and Japan Electricity. In this component, domestic suppliers can get charge free loans from the Government for a term of 5 years and maximal volume of Ringgit1 million in case they have linkages with “anchor” companies.

For pushing up the program a type of “three-partite agreement” was introduced by 1993 between Ministry of International Trade and Industry (MITI), an “anchor” company and a bank to develop suppliers. Results of a survey for evaluation show that majority of domestic sub-contractors cooperate very favorably with “anchor” companies from Japan with higher level of quality of products, added values of products and turnovers.

The reasons leading to participation of “anchor” companies from Japan in this program come from requests by the Malaysian Government and they feel to have duties to cooperate with policies for development of SMEs by the Malaysian Government. In fact, a request had been sent from MITI to The Japanese Chamber of Trade and Industry in Malaysia (JACTIM). Responding to this request 6 members of JACTIM agreed for participation. A time later, MITI requested that every “anchor” company needs to accept, to facilitate and to increase certain number of domestic suppliers in every 5 year period. Then “anchor” companies faced difficulties in searching new suppliers, particularly Bumiputra companies (since the program was limited among Bumiputra suppliers - Malay ethnic rooted companies) since “anchor” companies already get full with sub-contractors from previous periods.

Program of industrial linkages: The program was established since 1997 and it was open for all SMEs. The program offered three services: financial supports, business linkages and other related packages (including website, technological upgrading, market export development and etc.). Here, the Small and Medium Industries Development Corporation (SMIDEC) was the hub and the approved enterprises were exempted of corporate income taxes for 5 years or subsidized with investment taxes at rate of 60% according to Law on Domestic Investment Promotion, 1986.

In addition, SME Corp. established in conformity to Law on SME Corp. by 1995 was the only hub to implement global policies. It was in charge of coordinating and consulting works of supports for all the domestic SMEs. The central task of SME Corp. is to create SMEs really strong in terms of quality to make Malaysia become a globally developed nation as being oriented by visions to 2020.

Malaysia developed a system for evaluating, classifying and ranking SMEs from “Zero Star” to “Five Stars” on basis of clearly defined indicators. *Zero Star*: No particular activities, handicraft production procedures, low average or negative growth rate; *One Star*: handicraft production procedures, minimal level system of quality control, low average growth rate; *Two Stars*: Semi-automatic production procedures, basic grade of the certificate of conformity level, minimal level of upgrading of production procedures and products and minimal level of average growth rate; *Three Stars*: Extended automation of production procedures, on-site system of quality control, implementation of upgrading of procedures and products, registration for control of intellectual property, medium level of the certificate of export conformity; *Four Stars*: Full automation of production procedures, high export potentials, large investments for upgrading of products and procedures, availability of export licenses such as, Certification of EU Marking, EU Certification of Good Production Practice, Hazard analysis and critical control points (HACCP); and *Five Stars*: Good trademark and packages, availability for export, conformity to requirements of certifications of export nations.

The classification targets: (i) Identification of weak points of SMEs in comparison to focused tasks for selection of destination and orientation of supports; (ii) Promotion of linkages of potential SMEs with large companies, multi-national corporations and retailers; (iii) Identification and favors of financial supports to fit development of SMEs. Particularly, SMEs from *Four Stars and Five Stars* will get supports in development of linkages with multi-national corporations or State owned enterprises (customers) for orientation of these companies to international markets.

At the same time, Malaysia implemented successfully some programs of support for SMEs such as *Program of Skill Upgrading* (which offers supports for upgrading of skills and re-training of labors to ensure the quality of effective works in sectors of electro-electronic industry, information technology, industrial techniques and designs where financial supports may come up to 70% for upgrading of techniques and soft skills for SMEs), *Program of linkages of trainee-students with SMEs* (which targets to establish linkages of SMEs with universities for joint development of their strength); *Awards of Enterprise 50* (a prestigious award to certificate success for 50 leading enterprises in various aspects including financial capacities, activities, management skills and others. Particularly, the awarded enterprises are allowed to use the logo *Enterprise 50* for their assets), *Preferential loans for SMEs* (which offers supports for enterprises in terms of project development, fixed assets and operational capitals), *Funds for emergency supports for SMEs* (which offers financial supports

under form of preferential loans when their business activities get impacted by natural disasters), *Consulting experts for SMEs* (which provides SMEs with technical consulting services from retired experts highly experienced in related in industrial sectors; by end 2012, 64 experts in various sectors were appointed to be experts of the program.)

Now, even the program of development of suppliers and the program of industrial linkages which have objectives to push up development of supporting industries and linkages between domestic enterprises and FDI enterprises are maintained but they stop being the key actors in policies for SMEs of Malaysia. Today the focus of policies of the country had shifted from building linkages with FDI enterprises to promoting innovations by SMEs without being dependent on multi-national corporations.

3.3. Experiences from Chile

Policy tools are used by the Chilean Government for attraction of R&D related FDI capitals including some programs which offer independent preferential finances. These programs were focused on policies to enhance linkages with FDI enterprises and to enhance capacities of domestic enterprises to absorb new technologies. These programs were conducted by National agency for development and innovation of Chile (*Corporación de Fomento de la Producción de Chile - CORFO*) and Agency for FDI promotion (CIE).

Program InvestChile: The first important starting point in new strategies of the Chilean Government was made by 2000 when the program InvestChile was established and then implemented by CORFO for attraction of FDI high techs for the country. The contents of supports include pre-feasibility studies, purchase of fixed assets, R&D activities and training activities. Particularly, FDI sources with projects of high tech investments in Chile were supported up to 40% of investments for fixed assets and the maximal value of favored supports of USD2 million by FDI enterprise. Despite this favor is not big it attracted attentions of potential investors.

By 2012, the Chilean Government decided to shift management of InvestChile from CORFO to CIE. Then the project slowed down and stopped operating until 2015. By 2015, the program InvestChile had been transferred to the program Supports for technological investments (with bigger favors and more reasonable procedure of application) under joint management by CIE and CORFO. The program confirms the necessity of tough coordination between innovation promotion organizations and FDI promotion organizations.

Initially, the program InvestChile was focused on sectors of information technologies and telecommunication but afterwards extended to other sectors such as biotechnology, renewable energy, exploitation technologies and specific services. Then the program applied a multi-functional approach to target business functions of high added values such as R&D activities and sharing service centers. Despite the strategy for selection of projects still remained but the program had shifted from being axial oriented with focus for information and communication technologies (ICT) to the transversal orientation with focus on high techs for multiple industries.

Program R&D tax favors: By 2008, the program of tax favors was issued to stimulate private investments sources for R&D sectors with the credit line of tax of 35% for R&D contracts related to R&D centers or universities, and the maximal value of favors in range of USD400,000. By 2012, CORFO decided to simplify requirements, eligibility conditions and formality for submission of application (removal of request to have cooperation with R&D centers), to raise three times the maximal value of tax credits for each company and to stimulate to extend many expenditure items

A policy of favored tax rate for R&D activities was applied equally for domestic companies but the priority target of the policy is to attract FDI companies for realization of R&D projects in Chile. A report by OECD (2014) shows this tax favor may cause impacts to shift FDI capitals from one country to another one in the same region. Some OECD countries such as Canada and France enhance R&D tax favors with targets to attract more R&D related FDI capitals with more competitive costs than neighboring countries do.

The program tried to push up linkages between multi-national corporations and universities and local R&D centers through tax favors for expenditures noted in R&D contracts while other internal R&D expenditures are not accepted for tax favors. Local universities and R&D centers if wanting to take part in the program have to be certified to be eligible for that - the measure to enhance controllability and transparency of the program. These shortages were corrected and then the number of FDI applications increased considerably but the cooperation of FDI sources in R&D activities with local research organizations did not get success since they were not focused on industrial sectors where local partners have advantages and good potentials for development.

Program of Excellent International Research Centers: This program was introduced by COFRO in 2008 which targets to establish national R&D centers with participation of universities and public research institutes of international class. The first calls for participation were launched by 2009

and 4 centers were selected. The second calls were launched by 2011 and 10 new centers were selected. The program was also extended to orient to R&D centers of multi-national corporations. Then in this program, 12 R&D centers were established in Chile including 8 leading universities, public research institutes and multi-national corporations from 7 countries. The program was considered as the most expensive one among the projects run by CORFO for promotion of innovation in Chile with the annual budget of about USD30 million.

Every center among the 4 selected centers in the first group gets a volume of non-refundable supports maximally up to USD19.5 million for a duration of 10 years. The volume of reciprocal finances is required to be at least equivalent to 59.5% of provided supports. In addition to provision of supports from public sources for large projects, the program is designed for selection of some excellent centers which would get considerable financial supports to produce big success in a short time.

In addition to linkages developed with enterprises, the excellent centers are requested to hire Chilean scientists and to establish agreements with Chilean universities. The program also tries to give contributions to realization of larger objectives of improvement of the national innovation system of Chile, particularly to enhance scientific research cooperation in industrial fields and to carry out commercialization of technologies.

Program of start-ups of Chile: The program started by 2010 to attract foreign innovative start-ups by providing foreign businessmen with a residential visa and a non-refundable subsidy for development of their projects. For promotion of the project, CORFO cooperated with some global technological companies such as Google, Amazon, Microsoft, PayPal and many others.

The program is supplementary to some other programs in attracting not only R&D related FDI sources for investments from multi-national corporations and international class public research organizations but also businessmen and technologically specialized companies even small sized.

During the trial period starting from early 2010 there was a total of 22 start-ups from 14 countries to come to Chile. Every company among them gets a seed money of USD40.000 and a temporary visa of 1 year for development of their start-ups in Chile and the minimal stay time of 6 months. During this trial period, by 2011, the first call for proposals had attracted 330 applications and 87 of them from 30 countries were selected. The calls of the following years, by 2015, collected more than 1,000 applications from 70 countries for participation in the program.

According to the rules of the program, the selected businessmen need to commit to live in Chile at least for 6 months and are expected to organize or take active part in linking and consulting events and other activities to promote entrepreneurship in their locations. This participation would secure at least some linkages with local partners to be established and to give contributions to build up absorbing capacities of local partners. A survey conducted by 2012 by CORFO for 91 start-ups which take part in the program shows that 64% of them had hired Chilean enterprises, 22% had submitted applications for patent in Chile from the time they get the subsidy.

Another challenge is only about 20% of participating foreign start-ups still operate in Chile after having met basic requirements of the provided subsidy. For settlement of this problem, by 2015, CORFO extended the program by providing the subsidy for start-ups in national scale which much higher than the initial level. More than that, an additional subsidy of about USD100,000 was introduced for the best start-ups participating in the program (about of 1% of the total of participating start-ups every year). At the same time, the new scheme of supports requires a commitment of reciprocal finances at least 30% of the total values of the project. By 2016, the program was not focused on concrete sectors of interests and then tried to provide favors in sectors and fields where Chile has advantageous positions. As results, some start-ups were not bound closely with the local industrial sectors as expected and they face many difficulties when extending their scale.

The experiences of Thailand, Malaysia and Chile as presented above show that Thailand is very successful in linking SMEs and FDI enterprises in sectors of automobile and electro-electronic industries but the success could not expand to other sectors due to very limited State budgets. Malaysia gained failures in promotion for fast growth of domestic suppliers when the Government interferes too deeply operational activities of FDI enterprises. Also Chile was not successful in attraction of R&D related FDI investments (particularly for start-ups) when it did not define priority orientations focused on advantageous fields of the country then the made efforts were not highly effective in promotion of linkages between domestic enterprises and FDI enterprises. According to views of many experts, the favors made by the Government would be effective if they are well connected with the national innovation system.

4. Status of linkages between SMEs and FDI enterprises in Vietnam

In reality, almost all the FDI enterprises in Vietnam wish to cooperate with domestic enterprises for maximal use of local resources to reduce product

costs and to maximize benefits. The linkages between domestic enterprises or local suppliers and FDI enterprises can be divided into the two groups as follows.

First group includes domestic enterprises which have become or will become soon suppliers for FDI enterprises. They are enterprises capable, more or less, of meeting indicators of product quality, size of orders, competitive prices, delivery schedule, level of advanced technologies and internal management as required by FDI enterprises. Surveys show that the suppliers in this group achieve at least one or some standards of quality management (ISO 9000, ISO 9001), management systems (5S, Kaizen), advanced methods of management (Lean, 6 Sigma), management of labor safety and health (OHSAS 18001), management of environment (ISO 14000), management of energy (ISO 50001) and corporate social responsibility (SA 8000).

Actually, Vietnam has about 0.35% of the total of 500,000 domestic enterprises (about 1,750 enterprises) participating in producing and manufacturing activities in sectors of supporting industries. However, in practice, the number of domestic enterprises which have full capacities to become suppliers for FDI enterprises or overseas partners is only about 30% of the above noted total number of 1,750 enterprises which are 500 enterprises or domestic suppliers. Basically, these domestic enterprises have had necessary capacities before establishing linkages with FDI enterprises (starting partners in supply chains or overseas enterprises). Some of them can be listed here as illustration, such as 4P Co. Ltd., Thanh Long Electronic Co., Ha Yen Corporation, Hanoi Plastic JSC., 3H Plastic JSC., INNOTEK JSC. and LeGroup Production and Trade.

Second group includes the remaining domestic enterprises (making majority) which are actually incapable to develop linkages and cooperation with FDI enterprises.

Then the overall level of linkages and cooperation of domestic enterprises with FDI enterprises remains very low. Some reasons can be noted as follows.

Many FDI enterprises in Vietnam noted that they face with many difficulties in searching suitable local partners because there exists a big gap in technological level and required standards. At the same time, the quality of Vietnam human resources (from management staffs to high skilled labors) remains low and lacked in Vietnam. They cannot meet requirements of FDI enterprises and then a big part of FDI enterprises have to focus their business in simple assembling or producing activities without establishing their research facilities in Vietnam.

Some programs and policies of support are built up without having clear objectives and then cause impacts to their monitoring and evaluating activities. The fact that even some programs of State supports do not have monitoring and evaluating components raises concerns for lack of objective background and transparency in these programs and it may lead to lower number of SMEs to participate in the programs. The coordination mechanisms between management agencies in many programs of supports for SMEs still are limited and overlap one with other in identification of objectives and even contents of supports. Then the programs of supports even rich in number still lack linkages and synergies between them and then lead to the lack of activities to support enhancement of capacities of SMEs and to their limited capacities and visions.

Many FDI enterprises when feeling comfortable in low labor costs, advantages of natural resources and favored taxes in their investments in Vietnam still face difficulties in lack of credible information on local suppliers which can meet, from one side, basic requirements of quality, prices, quantity and delivery terms of products, and, from another side, inadequate level of technologies, machine and equipment, existing partners and applied standards of suppliers. These difficulties lead to longer time and higher costs of FDI enterprises in searching and establishing linkages with local suppliers

And another aspect, the unserious enforcement of intellectual property (IP) rights leads also to certain worries of multi-national corporations in sharing know-hows and doing technological transfer for local suppliers. Also, the unserious implementation of contractual commitments cannot make multi-national corporations interested in training of skills and additional capacities for local partners and labors due to the risks to lose them to competitors once they get well trained. This failure partially causes gaps in linkages between domestic enterprises and FDI enterprises.

5. Some recommendations for policies to promote linkages between FDI enterprises and SMEs in Vietnam

The above presented status of linkages between SMEs and FDI enterprises in Vietnam and studies of experiences from some countries in promotion of linkages between local SMEs and FDI enterprises lead to some recommendations as follows.

First, it is necessary to state that for objectives of integration of FDI enterprises into national economy and into the community of domestic enterprises, the State authority agencies have to be highly proactive in issuance of policies to stimulate and to push up establishment of linkages

(through provision of opportunities and favors for SMEs to develop linkages and cooperation with FDI enterprises) because the process does not develop in natural ways. Particularly, domestic enterprises have to be highly serious in accumulating capacities and building up reputations and trade marks in local markets in particular and international markets in general.

Second, the State administration works of domestic enterprises and FDI enterprises actually are assigned to various State authority agencies without fully matching integrated structures of policies and mechanisms of these two actors. Therefore, in order to shorten the gaps between domestic enterprises and FDI enterprises the State authority agencies have to review and to re-build an integrated system and/or to establish a hub organization for global coordination of these activities. This measure is to avoid the situation where different types of enterprises enjoy too different policies, favors and supports.

Third, we are making many events and conferences for promotion of investments and trade with similar or overlapping objectives and contents. They are conducted by central organizations with loud noises, high costs and low effects. Many of them need to be reviewed, rechecked and evaluated in global plans to avoid similarity and overlapping and to gain higher efficiency. Resources should be focused for more meaningful events which are not conducted actually such as exhibitions of sub-contractors, promotion of sub-contractors, and program of consulting services by professional experts.

Fourth, practice shows that the countries having low developed human resources can attract low class FDI enterprises and, inversely, the countries having high qualified human resources can mobilize a big volume of deeply specialized knowledge from FDI sources. A right policy for improvement of quality of education and human resources would enhance technology absorbing capacities by enterprises for sustainable development. Then the policies for education and training are the key to creation of sources to supply quality human resources in the country to gain benefits from spillover impacts of FDI enterprises.

Fifth, some other actors which would help us enhance linkages between SMEs and FDI enterprises and make FDI enterprises bring in advanced technologies together with their investments in Vietnam include the serious implementation of protection of IP rights. Clearly these efforts will help partners and local labors have chances to move closer to FDI enterprises and, at the same time, stimulate investors and researchers to introduce products and research results of high values.

Sixth, domestic enterprises should take part in global value chains of multinational corporations and then identify clearly their segments in chains. They would define here what to do and how to meet requirements of multinational corporations (as customers) and gradually confirm roles and positions of enterprises of Vietnam in global value chains. Therefore, it is necessary to develop supporting industries because they are key important industrial sectors for development. Only when domestic enterprises master technologies to produce the smallest parts which can meet international standards we can hope to move further to produce complete products.

Seventh, it is necessary to pay attentions on solutions for spillover of impacts from domestic suppliers which are successful to develop linkages with FDI enterprises after having settled limited sides of domestic suppliers thanks to supports by FDI enterprises (which are starting points of supply chains or Grade 1 suppliers of chains). The list of some successful domestic suppliers is given above when they develop a bottom-up approach. By this way, they demonstrated the role of private sector once they proactively take part in global value chains. Actually, we lack adequate measures for spillover of these typical successful suppliers and then we need to have a clear and better organized roadmap of policies for this spillover.

Eighth, the pilot implementation of the above noted Program of development of suppliers and the evaluation of the program in two years will show well that Vietnam should have an official program to link domestic suppliers and FDI enterprises. Some recommendations are proposed here for the program: (i) The duration of the program should be adequately considered for every stage and the minimal duration should be 10 years. This duration is enough for preparation and issuance of guiding regulations and technico-economic norms for practical implementation; (ii) It is necessary to set up an Intersectorial Steering Board for control of production of parts to meet international standards. This Board would identify clearly roles, authorities and liabilities for solution of the problem of non-integrated coordination between related State authority agencies; (iii) Resources should be mobilized to build up and to develop a database of domestic suppliers which meet requirements in searching of information by FDI enterprises, and a ranking system of domestic suppliers. With this ranking system, the domestic suppliers should know the position they are in for preparation of adequate strategies for next development; (iv) Managing staffs of the program lead organization and other related organizations should have opportunities to enhance their management capacities for better operation and coordination of the program; (v) It is necessary to provide solution packages for supports of linkages and development of capacities, such as supports through package of financial interest rates for certain duration, package for linkages between customers and suppliers, package

for suppliers to cut down production costs, package of technical assistance by FDI enterprises for large participation of domestic suppliers and FDI enterprises

Ninth, private sector should be stimulated to build up and to develop high quality on-line database (providing general information and detail information on production capacities, classification and ranking of domestic suppliers) which should be updated regularly. It is particularly important for sectors and fields where Vietnam has competitive advantages with the next spillover to other sectors and fields.

6. Conclusion

When we target to promote linkages between domestic enterprises and FDI enterprises and to enhance technological capacities of domestic enterprises on basis of linkages with FDI enterprises the essential aspects remain the training of human resources and enhancement of capacities of enterprises. No country can miss if it wants to gain stable growth and to make sustainable development. Therefore, it is important to develop human resources in direction of specialization, focused training of experts, high professional qualification and practical skills, and advanced management level. The human resources with high quality would allow to develop proactive cooperation, to be ready to catch up opportunities and to absorb high level knowledge. The human resources with high labor skills while working in SMEs would push up linkages and maintain business cooperation with FDI enterprises./.

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