

Original Article

# Sustainable Economic Development: A Study of Enterprises in Northern Upland Provinces

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Received Date: 10 October 2023    Revised Date: 19 October 2023    Accepted Date: 22 October 2023    Published Date: 24 October 2023

**Abstract:** Enterprises are critical to the economy since they are the leading contributors to national GDP. In recent years, business activities have experienced significant growth, assisting in the liberation and expansion of industrial capacity, mobilizing and utilizing domestic social and economic growth resources, driving economic recovery and growth, increasing export revenues, and effectively addressing social issues such as employment, poverty reduction, and hunger. Therefore, the development of enterprises, both in general and in the northern upland provinces of Vietnam, is essential for the country's development strategy. This article examines the current business development status in these provinces. It provides recommendations to enhance their competition and integration to boost socio-economic growth in the northern uplands.

**Keywords:** Enterprise Development, Labor Force, Northern Upland Provinces, Vietnam.

## I. INTRODUCTION

The northern upland region of Vietnam holds significant potential and strengths for development in various sectors, including hydropower, mineral exploitation and processing, trade, and tourism. The region's natural advantages, such as fertile land, climate, biodiversity, and cultural diversity, provide opportunities for economic development in agriculture, forestry, animal husbandry, aquaculture, and medicinal plants. However, the socio-economic development of this region has not fully matched its investment scale and existing potential. The northern upland region is still considered a slow-growing economic area with the lowest growth rate in the country (Nguyen Xuan Thang, 2014). Many localities in the region are unable to balance their budgets independently, economic restructuring is slow, infrastructure remains underdeveloped, and transportation networks, such as roads, railways, and waterways, are limited.

The northern upland region is directly managed by the Northern Upland Steering Committee, which consists of 12 provinces (Ha Giang, Lao Cai, Yen Bai, Lai Chau, Dien Bien, Son La, Hoa Binh, Cao Bang, Bac Kan, Lang Son, Phu Tho, Tuyen Quang). With its challenging natural conditions, this region is at risk from environmental factors but is also politically significant. It accounts for one-third of the country's land area and is home to over 10 million people from various ethnic groups. The northern upland region boasts diverse, unique natural conditions, natural resources (forests, minerals, energy, geological wonders, and climate), and rich ethnic cultures.

In light of its development and integration into the global economy, the northern upland region faces numerous challenges, including the underdevelopment of its business sector. To address these challenges, measures must be taken to enable businesses in the northern upland provinces to compete effectively, participate more in the value chain, contribute to national and global production networks, and ultimately drive the region's socio-economic development. These issues have attracted the attention of authorities, various sectors, and many scientists.

As of the end of 2016, the northern upland region had more than 15,900 enterprises, a growth of over 17% compared to 2011, creating 455,475 jobs for the local workforce. The majority of these enterprises are privately owned (accounting for over 80% of all enterprises in the region) and are mainly engaged in the industrial and service sectors. Despite the growth in numbers and scale, the development of businesses in the northern upland region remains less effective. Some sectors with regional advantages have not been fully exploited, foreign investment in the region is limited, and growth is slow.

In this article, the author aims to contribute to the theoretical foundation of enterprise development, analyze the current state of enterprise development in the northern upland provinces, and provide recommendations to enhance their competitiveness and integration, thus promoting the socio-economic development of these provinces.



## II. THEORETICAL BASIS OF ENTERPRISE DEVELOPMENT

### A) *Definition of an Enterprise:*

According to Schumpeter, J. (1911), an enterprise is an organizational unit of production where the company's employees combine various factors of production to make and sell items or services on the market, profiting from the difference in price in the price at which they are sold and the production cost.

Caillat A. et al. (1996) define an enterprise as a group of people that create goods. It is born, grows, faces failures and successes, overcomes crises, and sometimes ceases to exist due to insurmountable difficulties.

According to Vietnam's Enterprise Law (2014), An enterprise is a legally created entity with a name, assets, and an official location for business purposes.

While there are various definitions of an enterprise from different perspectives, the most common form of an enterprise is an economic organization, and its primary purpose is business.

### B) *Notions of Enterprise Development:*

Enterprise development is a term that started to be widely used in Vietnam in the 1990s and has been extensively used from 2000 onwards. Currently, enterprise development is primarily understood as an increase in the number of enterprises. In this sense, enterprise development refers to the increase or growth in the number of enterprises within a specific geographic area, administrative boundaries, economic boundaries, or by sector or industry.

According to Nguyen Trong Xuan (2016), enterprise development is the manifestation of a long-term trend (rather than a short-term phenomenon or state) of an increase or decrease in the number of enterprises, a rise or fall in the types of enterprises oriented toward satisfying diverse market demands. To assess enterprise development comprehensively, one must consider (1) The change and trend in the number of enterprises, (2) The quality improvement, and (3) The structural change in a positive direction suitable for the requirements and conditions of reality.

Ngo Thang Loi (2017) discusses sustainable enterprise development, which involves the overall sustainability of the enterprise itself and the positive impact of the enterprise on the beneficiaries. Sustainable enterprise development is about achieving both (i) the resilience of the enterprise in a context of open market and fierce competition (efficiency) and (ii) the creation of positive effects of the enterprise on the environment and society (friendly).

The concept of enterprise development has also been included in Vietnam's statistics, and the government has released a set of criteria to assess the level of enterprise development in the country and its provinces (Government, 2018). These criteria are the basis for evaluating enterprise development's comprehensive results, effectiveness, and quality at national and local levels.

### C) *Criteria for Assessing Enterprise Development:*

On September 26, 2018, the Prime Minister of Vietnam issued Decision No. 1255/QĐ-TTg, approving the plan to build a set of criteria for assessing the level of enterprise development. This set of criteria is used to comprehensively evaluate the results, effectiveness, and quality of enterprise development in the country, its provinces, and centrally-run cities. The criteria include:

Level of development in terms of the number of enterprises: The actual number of operating enterprises, the number of operating enterprises per 1,000 people, the number of newly registered enterprises, the number of enterprises ceasing operations, the ratio of newly established enterprises to enterprises ceasing operations, the number of temporarily suspended enterprises returning to operation, the number of enterprises completing dissolution or bankruptcy.

Labour force development level: The number of labourers actually working, the rate of trained labourers, the gender ratio and educational level of labourers, the ratio of enterprise owners by gender and educational level, and the ratio of labourers working in research and development.

The attraction of investment and financial resources: Sources of capital for production and business, total registered capital for new establishment and business expansion, investment capital, the owner's equity ratio, fixed assets and long-term investment, capital per labourer, fixed assets per labourer.

Business strategy, market development, brand building, participation in state support programs, etc.

Results and effectiveness of enterprise development: Revenue, the income of labourers, value-added, profit before tax, contributions to the state budget, average income per labourer, labour productivity, capital turnover ratio, the ratio of profit or loss-making enterprises, and profit margins.

The author applies these criteria to analyze the current state of enterprise development in the northern upland provinces.

### III. RESEARCH METHODS

The research primarily relies on secondary information from the Business Survey Database for the period 2017 - 2022 provided by the General Statistics Office. The collected information includes the number of enterprises, the number of labourers, capital, revenue, and pre-tax profit.

Comparative methods and descriptive statistical methods are employed to analyze the current state of enterprise development and the contributions of enterprises to the northern upland provinces.

A discussion approach is used to engage with experts to understand the causes and directions of enterprise development in the northern upland region in the near future.

### IV. RESEARCH RESULTS

#### ***A) Current Situation of Business Development in the Northern Mountainous Provinces Fluctuations in the Number of Businesses***

The number of businesses in the northern mountainous provinces has steadily increased over the years. Without considering quality, this is a very encouraging development for the economy of these provinces. In 2017, the entire region had 12,413 businesses, and by 2022, this number had increased to 15,916 businesses, achieving an average growth rate from 2017 to 2022 of 19.8%.

In terms of structure, when considering individual provinces, Phu Tho currently has the largest concentration of businesses in the region, consistently accounting for over 20% of the total. Hoa Binh and Lao Cai follow it. However, Son La Province, followed by Lao Cai and Lạng Sơn, are the areas with the highest growth rates in the number of businesses.

When considering industries, most businesses in the northern mountainous provinces are concentrated in the construction industry and the service sector, with a notable increase in service sector businesses. As of December 31, 2022, the service sector accounted for 78% of the total, while the agricultural and aquatic sector only accounted for 6.9%.

#### ***B) Regarding the Number of Businesses based on the Economic Component of the Northern Mountainous Region***

The number of state-owned enterprises has decreased compared to the previous year, while the number of non-state-owned enterprises has shown the opposite trend, with an increase in the following year. Non-state-owned enterprises consistently account for over 80% of the total number of businesses in the region. As for foreign direct investment (FDI) enterprises, the Northern Mountainous Region is one of the most challenging regions for them, so the number of such enterprises, while increasing, remains very small in proportion to the total number of businesses in the Northern Mountainous Region (less than 10%).

The economic structure of the Northern Mountainous Region is undergoing a transition towards industrialization and modernization. Labour is being attracted to industries and construction. As of the end of 2022, the agriculture, forestry, and fisheries sector attracted over 19,000 workers, the industrial and construction sector attracted over 326,000 workers, accounting for nearly 72% of the total workforce, and the service sector attracted over 110,000 workers, accounting for more than 24% of the total workforce in the region. This is a positive trend, in line with the requirements of industrialization and modernization of the economy.

Overall, during the period from 2017 to 2022, labour attracted to businesses in the Northern Mountainous Region increased slowly. Additionally, due to differences in the distribution, scale, and characteristics of industries among provinces, the labour force is unevenly distributed. The most concentrated labour force is currently in Phu Tho and Lao Cai provinces. However, Dien Bien and Hoa Binh provinces are the two areas that have seen the fastest growth in attracting labour to business areas, while Bac Kạn and Ha Giang provinces have experienced a decline in labour during this period.

#### ***C) Regarding the production and business efficiency of businesses in the Northern Mountainous Region***

In terms of gross revenue, FDI businesses in the region achieved an average annual gross revenue of nearly 223 trillion VND (an 18.6% increase). Non-state-owned enterprises saw a 2.3% increase in gross revenue (equivalent to 19.4 trillion VND) compared to 2011, while state-owned enterprises experienced an average decline of 0.6% in gross revenue during the entire period. Comparing the efficiency of businesses in these areas, the survey results show that the return on assets (ROA) and return on equity (ROE) of state-owned enterprises are higher than those of non-state-owned enterprises and FDI enterprises. This indicates that, despite non-state-owned enterprises contributing significantly in terms of labour and FDI enterprises contributing significantly in terms of revenue, the business efficiency of these enterprises is lower, and losses are relatively common. The inefficient operation of businesses in the region can be attributed in part to the low starting point and the challenging geographical characteristics of the provinces, which have led to various shortcomings affecting the promotion of the business environment. This has been reflected through the Provincial Competitiveness Index (PCI) of the Vietnam Chamber of Commerce and Industry (VCCI), where many provinces in the region rank very low.

## V. CONCLUSION AND RECOMMENDATIONS

The majority of businesses in the Northern Mountainous Region are small and medium-sized enterprises, playing a significant role in the socio-economic development of the region. However, since most of these businesses are micro or small and possess outdated technology and equipment, they often lack competitiveness in the market and lack the capital for technological innovation. They also lack the capacity to engage in industries that require large capital and advanced technology.

The business activities of these enterprises are primarily focused on the domestic market, with limited participation in the international market, and their export scale is very small. In essence, the financial capacity of these enterprises is weak, and their professionalism and market position are limited, making them less adaptable to market fluctuations. Therefore, during the 2011-2013 period, when the economy faced a crisis, many businesses had to temporarily suspend their operations, dissolve, or have their business registration revoked.

Despite having vast land resources, the mountainous provinces still face difficulties in accessing land due to the fact that localities need initial investment to create clean land reserves for businesses. In addition, to expand production, businesses often seek ways to convert forest land into agricultural land. Thus, the current development of businesses in the Northern Mountainous Region is closely related to the depletion of forest resources.

The region has a shortage of skilled labour, making it difficult for businesses to develop industries that require high-level scientific and technological expertise. Since 2013, despite some signs of economic recovery, businesses in the Northern Mountainous Provinces have still not escaped their difficulties, with a significant proportion of them operating at a loss.

The existing limitations and constraints in the development of businesses in the Northern Mountainous Region are fundamentally rooted in the region's characteristics. Despite having vast land resources and advantages in forest resources, businesses in the region primarily focus on natural resource exploitation and expansion of production rather than investing deeply in technology. In addition, the level of management and awareness among workers, as well as barriers to accessing capital and the absence of specialized support policies, have all contributed to the difficulties faced by businesses in the process of development.

Therefore, the author proposes some solutions in the near future to promote the development of businesses in the localities of the Northern Mountainous Region:

- Localities in the region should focus on improving the investment and business environment to attract more capital into the region's areas of strength, such as forest development, aquaculture, mineral extraction and processing, tourism and culture, and border trade economic development.
- The most promising economic component in the Northern Mountainous Region is private enterprises. These enterprises operate on market principles, are small and flexible, and are usually dynamic and adaptable. This also makes them attractive to local and neighbouring province investors.
- Local governments should emphasize regional and inter-business linkages and support the training of business managers in terms of management skills, international law, and integration knowledge.

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