EXPANSION OF THE VIETNAMESE HANDICRAFT INDUSTRY:
FROM LOCAL TO GLOBAL

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This thesis titled

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FROM LOCAL TO GLOBAL

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Handicrafts have become increasingly popular in the global market. Countries throughout the developing world are exporting handicrafts to the developed world, creating a new source of revenue and employment. The recent development of the Vietnamese handicraft industry and the role that government policies and exporting businesses play in it are the focus of this thesis. Handicraft villages and artisans serve as the producers of handicrafts, while handicraft exporting businesses find and provide the artisans with marketing opportunities for their products. This thesis draws upon in-depth interviews with two handicraft villages, Dong Ho and Ngoc Dong villages, as well as three exporting businesses, Craft Link, Ngoc Dong Weaving Company, and Hoa Lu Fine Arts and Handicrafts.

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Chapter 1-Introduction

This thesis examines the development and the structure of handicraft industries in Vietnam. A handicraft is an item which is created by hand or using simple, often traditional tools, which serves a purpose beyond decoration. Handicrafts are traditionally used for everyday purposes, such as baskets for storage or transportation of goods, clothing for everyday wear, or furniture for household use. The producers of handicrafts, those responsible for finding a market for the products, and handicraft consumers comprise the handicraft industry. This research focuses on the first two, handicraft villages as the producers and handicraft exporting businesses, which find a market for the products. In addition, government policies promoting and developing handicraft industries will be discussed. Specifically, Dong Ho and Ngoc Dong villages are examined as case studies, and interviews with exporting company representatives from Craft Link, Ngoc Dong Weaving Company, and Hoa Lu Fine Art and Handicraft Company are analyzed.

Vietnam is one of the many developing countries experiencing success in the handicraft exporting market. Vietnamese handicrafts have emerged as popular household items all over the world, from the streets of Hanoi to Tokyo and San Francisco. One is likely to find “made in Vietnam” stickers on products sold at Walmart, Marshall’s, and T.J. Maxx. Recent changes in the Vietnamese economy, such as its transition into a market-oriented economy and the strengthening of economic relations with other countries have poised the Vietnamese handicraft industry for rapid growth. This is exemplified in the Bilateral Trade Agreement with the United States, established in 2000.
Handicraft villages are a unique Vietnamese tradition. At least 40 percent of the working population in these villages participate in the production of particular handicrafts using a locally found medium (such as rattan). According to the Vietnamese government, 2,017 villages in Vietnam are regarded as “handicraft villages.” Such a number actually undercounts handicraft producing communities, because ethnic minority villages, which also produce handicrafts, are not enumerated. Based on these facts, handicraft industries are a critical element in the Vietnamese economy and the development of many rural villages around the country.

Handicrafts have proven to be a sustainable source of income and employment in Vietnam, particularly in rural areas. Today, handicraft industries employ 11 million Vietnamese (Craft Villages Urged to Cooperate for Development, 2005). Continued development of handicraft industries and expansion into international markets is a desirable prospect for handicraft artisans and their villages. The expansion of handicraft villages is in the interest of the Vietnamese government as a method of economic development, as well as a source of employment for the country’s large rural population.

This study examines 1) how handicraft industries in Vietnam have developed in recent years, 2) how handicraft artisans and villagers have expanded export markets for their products, and 3) how government policies have helped or hindered the expansion of the Vietnamese handicraft industries.

This thesis is organized into seven chapters. Following the introductory chapter, Chapter 2 examines the significance of rural industrialization in the developing world and transition economies. It also looks at handicraft industries as a mechanism for rural development. The Vietnamese economy, emphasizing market transition in the post-Doi
Moi era is discussed in Chapter 3. Chapter 4 discusses the recent development of handicraft industries in Vietnam. Chapter 5 investigates handicraft villages in Vietnam’s Red River Delta with particular focus on Dong Ho and Ngoc Dong villages. Chapter 6 examines handicraft marketing networks in Vietnam, drawing on interviews with three local export businesses: Craft Link, Ngoc Dong Weaving Company and Hoa Lu Fine Art and Handicraft Company. Finally, in Chapter 7, the research concludes with the proposition of handicraft industries as a source of sustainable development in rural Vietnam.

1.1 Research Area

This study focuses upon the development of handicraft industries in Vietnam (see Map 1.1). The Red River Delta region is home to the majority of handicraft villages in the country, as well as the country’s capital, Hanoi, in the northern part of Vietnam. Many handicraft exporting companies have chosen to locate in this region, given the easy access to resources available in the city and close proximity to the handicraft producing villages.

This research draws upon personal interviews and observations in two handicraft villages and three handicraft exporting businesses in the Red River Delta. In Dong Ho village, artisans create block-print paintings illustrating local folktales, historical events, and social mores. The village is located in Bac Ninh province (see Map 1.2), the most densely populated province in Vietnam, with 1,233 people for every square kilometer. The province as a whole has a population of 987,400 people, the majority of whom are peasants. Bac Ninh borders Hanoi to the east, with Dong Ho village about 40 kilometers
from Hanoi. This village was chosen for this research because of its long history of handicraft production, as well as its increasing involvement in international tourism.

Map 1.1: Map of Vietnam


Ngoc Dong village is home to weaving artisans, who create a variety of products, such as baskets, placemats, and rugs. The village is located in Ha Nam province (Map 1.2), 50 kilometers south of Hanoi. Ha Nam province has a population of 820,100. This province has a population density of 963 people per square kilometer. Ngoc Dong is one of six villages in a 7km² area that produce items made from rattan and bamboo. These six villages have a combined population of 6,894 people. Traditionally, agriculture was the leading economic activity, with handicraft production serving as supplemental work in
the evenings and off-seasons. This village was chosen as a research area because of its recent emergence into the handicraft export market.

Dong Ho village and Ngoc Dong village have both similarities and differences. Despite both Dong Ho and Ngoc Dong having a historical tradition of handicraft production, the two villages differ in the ways they have developed their handicraft
sector. Dong Ho chose to concentrate on sales to the tourist industry, while Ngoc Dong directed its handicraft production towards export sales. Both villages in recent history have relied heavily on the agricultural sector to employ their populations. However, as the agricultural sector has begun to wane, artisans have sought out alternative employment options. In each of the villages, handicrafts appeared to be a viable option for employment.

Three handicraft exporting companies were studied, Craft Link and Hoa Lu Fine Art and Handicraft Company, in Hanoi, and Ngoc Dong Weaving Company in Ngoc Dong village. Craft Link’s showroom and business offices are located in Hanoi. Its products come from all over Vietnam, from 53 different handicraft producing groups, including ethnic minority groups, traditional handicraft villages, and groups of handicapped artisans. Hoa Lu Fine Art and Handicraft Company, as well as its factories, are also located in Hanoi. Hoa Lu employs between 500 and 1000 people in its factories. Ngoc Dong Weaving Company is located in the village for which it was named. Ngoc Dong employs over 30,000 weavers in surrounding villages and employs 150 workers in its factories.

1.2 Research Methods

This work draws upon the information gathered during the author’s fieldwork from a five-week period during the winter of 2005. Information gathered by the author came in the form of interviews and observations, as well as documents gathered while the researcher was in Vietnam. Interviews were conducted in English and using an English-Vietnamese translator.
Handicraft artisans, representatives from companies exporting handicrafts, and representatives from the Ministry of Agriculture and Rural Development (MARD) were interviewed as part of this research. The author interviewed handicraft artisans from Dong Ho village and Ngoc Dong village (see Appendix A). These interviews relied on the use of a translator. Interviewing the artisans allowed the author to get an idea of the role that handicraft artisans play in the introduction of Vietnamese handicrafts to the local market. In addition, the relationship between the artisan and the government was examined, as well as the relationship between the artisan and the handicraft exporters, through the information gathered during interviews.

The author interviewed handicraft exporting companies Craft Link, Ngoc Dong Weaving Company, and Hoa Lu Fine Art and Handicraft Company (see Appendix B). These interviews were conducted in English. Interviews with these companies allowed the author to learn how handicrafts were collected from handicraft artisans and how the handicrafts were distributed to the export market. Information on the relationship between artisans and the companies and on marketing efforts was complied.

The author conducted interviews with representatives from MARD (see Appendix C). Interviews with MARD representatives were carried out in English. These interviews allowed the researcher to learn of the policies being put into place to benefit handicraft artisans as well as companies exporting handicrafts. The interviews revealed the direction in which MARD was going regarding rural development and the further development of handicraft industries.

Participant observation was also conducted in handicraft villages in the Red River Delta. Two villages were observed, Dong Ho and Ngoc Dong. The observations allowed
the researcher to compare two handicraft villages, one which has been exposed to tourism (Dong Ho) and one which has yet to become a tourist attraction (Ngoc Dong).

Finally, documents available only in Vietnam were gathered by the author. This included a study by MARD and a partner on handicraft industry and village development in Vietnam.
Chapter 2- Rural Development and Handicraft Industries in Low-Income Countries

Developing countries often rely heavily on urban areas for industrial and economic development. Urban areas are advantageous in the infrastructural development, availability of industry networks and services, and the availability of labor. However, rural industrial development tends to be neglected. As agricultural and pastoral options are waning in rural areas, rural industrial development needs to be emphasized in developing areas. In this chapter, industrialization as a means of rural development will be examined. Particular attention will be paid to industrialization in transitional economies and the role of handicraft industries could play in this development.

2.1-Rural Industrialization

Industrialization is often seen as a method of development and a way of alleviating poverty in low-income countries. Industrialization efforts in the developing world are typically centered around urban areas, with the majority of resources going to urban areas and government policies favoring urban industrial development (UNIDO, 2003). Rural industries are often overlooked, being viewed as a low income generating activity, which does not contribute significantly to the country’s overall economic wealth. However, rural industries contribute considerably to household incomes and quality of life for rural dwellers (Daniels, 1999), who make up over seventy-five percent of the world’s impoverished population (UNIDO, 2003). Since rural industries are not viewed as a viable source of natural economic development, the majority of research on the
industrialization of developing countries pertains to rural industries’ counterpart, urban industries (Chibnik, 2000).

Throughout the developing world, economic activities, specifically industrialization, tend to be concentrated in large cities, as opposed to being evenly dispersed throughout a country (Mundle & Van Arkadie, 1997). In Thailand, for example, the area in and around Bangkok houses a disproportionate share of the country’s total number of industries. Firms choose to locate in urban centers for a variety of reasons, including the large and readily available supply of skilled labor, access to developed infrastructure, availability of government and business services, easy access to repair and delivery, and being in proximity with related businesses (Krongkaew, 1995).

This is referred to as a “top-down” approach to industrial development, with the intention being that the economic development and successes of the urban sector, or “top,” will eventually trickle down to the rural areas, and industrial development will occur naturally. The “top-down” approach is favored by many developing countries, with the urban sector able to develop and begin producing capital much quicker than the rural sector would be able to do (UNIDO, 2003). However, when economic activities are concentrated in one geographical region, the capital earned tends to stay in that same geographical region. This results in urban centers becoming well developed, while rural and unindustrialized regions are neglected and remain underdeveloped (Krongkaew, 1995).

Industries in cities and urban areas are more likely to be large-scale than in rural areas, where industries are typically small-and medium-enterprises (SMEs). Large-scale industries have access to more political power than the small and medium industries,
which is attractive to business owners and foreign trade partners. Urban development hinders the development of rural areas. To illustrate, further development of urban industries makes the rural sector less attractive for both domestic and foreign investment, which results in fewer industries emerging in rural areas. As a result, the rural sector becomes stagnant and falls deeper into poverty. Rural poverty coupled with urban industrial development attracts rural dwellers to urban areas. This rural-urban migration negatively affects both the rural and the urban sectors. Urban migration results in further stagnation of the rural sector, and with the increase of people in these areas, makes urban development more difficult to manage (Mundle & Van Arkadie, 1997).

Rural industries often begin as a secondary source of income to agricultural production in low income countries. However, as industries have developed and agricultural benefits have waned, the number of rural industries opening has begun to rise. In rural Brazil, for example, 21.8 percent of the working population engages in rural industries as a primary source of employment. When counting those who work in rural industries as a secondary occupation, this number increases to at least 40 percent (Ferreira, 2001). Similarly, in the rural Polikastro-Peonia region of Greece, 52 percent of the population is involved in some form of small scale industries (Kalantardis, 1999). In India, a conservative estimate of 23 million Indians are considered “craftspeople,” which makes it the second largest source of employment in the country (Sood, 2002).

While cities and urban centers offer many advantages over rural areas, businesses are beginning to move out of the cities and into rural areas. For example, in 1987, over 60 percent of industries in Thailand were located in and around Bangkok; as of 1995, this number had decreased to 35 percent. The costs associated with being located in a city, in
this example Bangkok, are cited as one of the reasons behind this massive relocation (Krongkaew, 1995).

Some industries have begun to move into rural areas out of necessity. For example, perishable items which are harvested in rural areas can motivate firms to open factories in rural areas. In addition, the costs associated with loading and unloading raw materials and transporting the materials to urban centers often compels industries to relocate or open in rural locales (Krongkaew, 1995). Often for a country’s economy and industrial growth to continue, rural growth, whether it be industrial or otherwise, is necessary. Without rural industrial development, the rural economy will begin to stagnate, depending solely on the agricultural sector. Stagnation of the rural sector will spread throughout the rest of the country’s economy (Mundle & Van Arkadie, 1997).

Rural industries can vary from single-worker efforts to modern factories. The small-scale industries, which employ less than 50 workers, typically are community-driven and local. Small-scale industries are usually owned and operated by local entrepreneurs, a form of peasant proprietorship. Business interactions are informal and personal, and often these industries require only the most basic technology and minimal start-up costs (Kalantaridis, 1999).

The second type of industry found in rural settings is medium scale enterprises. These industries, employing between 50 and 100 people, are typically industries relocated from urban settings. Management is more formalized and the owners are detached from the workers. Technology in medium scale enterprises is more advanced when compared to small scale industries (Kalantaridis, 1999).
Small and medium enterprises (SMEs), as opposed to large-scale industries, are viewed as the best option for rural development. SMEs fit into the rural environment, with low start-up costs, readily available resources, and the flexible work schedules that SMEs allow rural workers. Small, rural industries are identified with a variety of names, cottage industries (Weijland, 1999), handicraft industries (Sood, 2002, Booth, 1996), small scale enterprises (Kalantaridis, 1999), micro and small enterprises (Daniels, 1999), and non-farm rural employment (Ferreira, 2001), just to name a few.

The organization of labor in rural industries parallels that of urban industries. At the bottom of the operational hierarchy are young, usually single or newly married women. They are paid very little; it is assumed that their income is “pocket money” and not a source of family income. Most often these workers are doing simple manual tasks. Married women with long-time experience working in the industry make up the middle portion of the labor force. They are responsible for assembling and other tasks which require manual dexterity. The highest positions are traditionally held by men. This top segment perform the skilled functions of production, which often require training and apprenticeships (Kalantaridis, 1999)

The transition from predominately agriculturally based workforce to one divided between agricultural and rural industries can be divided into two types. The first type deals with the agrarian transformation and industrialization in countries such as Japan, Korea, and Taiwan. In these countries, there is a low occurrence of households without land but dependent on agriculture for their livelihoods. The second type, which better serves the purposes of this research, consists of rural areas with high population growth and densities in rural areas, a stagnant agricultural sector, and a large number of people
without access to land, but dependent on agriculture for their livelihoods. In this second case, the growth of the non-farm, industrial sector is much needed for rural households to survive (Koppel, Hawkins & James, 1994).

Rural industrialization is a process of continual development. In order for the development to progress, improvements must be made. To begin with, rural industries must deal with low population density, low purchasing power, and the slowing agricultural sector. Furthermore, rural areas lack the physical and social infrastructure desired by industrial firms, such as telephones, and reliable water and electric sources and social infrastructure, such as public schools and hospitals (Krongkaew, 1995). Many of these problems can be improved with government intervention.

Rural development also faces the challenge of generating capital for area development. Rural entrepreneurs typically have more difficulties receiving loans and establishing credit than their urban counterparts. Investment in rural ventures is considered high risk, which results in higher interests rates and lending costs compared to urban industries (Krongkaew, 1995). In addition, small rural enterprises are often discriminated against by lenders, because of their lack of collateral, the size of the industry, or the size of the loan. Loans requested by small industries are viewed as being too small, and not adequately profitable for the lender. However, the introduction of microfinancing, peer group lending, and step loans have begun to offer potential SMEs the opportunity to receive the funding they need to get started (USAID, 2005).

Another challenge of rural industrial development is the nature of non-farm work and how it relates to the more dominant agricultural sector. Agriculture is often seen as the best option for development in the rural sector. Agriculture is favored over rural
industries. In rural communities, non-farm work is part-time or temporary work, done during the agricultural sector’s off- and slow-seasons, to supplement a rural household’s income. Handicraft production and agro-processing are the most common rural industries, which accommodate to the schedules of agricultural sector workers. Since rural industries have traditionally been part-time, supplemental work, many rural dwellers do not believe rural industries are capable of developing as a major source of employment or revenue.

Rural industrialization offers many benefits to rural workers and the country as a whole. Rural industries offer a means of escaping poverty and the uncertainty of agriculture. Rural industries offer more employment opportunities than the agricultural sector, with potential for further advancement of the individuals and the community. For example, a rural industry can cater to the needs of the larger community by producing goods for the local market. This contributes to the economic development of the community as a whole (Weijland, 1999).

Similarly, rural industries provide an alternative to urban migration when farming is no longer a viable option. This second benefit is especially important for countries with densely populated urban areas, such as Mexico City, Jakarta, and Bangkok (Chibnik, 2000, Weijland, 1999, Jongeward, 2002).

Rural industrialization needs to be addressed by governments of developing countries as a central issue, and not as a secondary effect, which is typically the case in the developing world. By focusing on issues important to rural areas, such as non-farm employment generation, poverty alleviation, and infrastructure development, countries such as Brazil, Chile, Mexico, the Philippines, Malaysia, India, Ghana and Zimbabwe
have established programs and policies specifically for the development of rural areas. Most commonly, these policies target handicraft industries and agro-processing (UNIDO, 1995).

Mozambique offers an example of a government developing policies with rural development as its central focus. Collaborating with UNIDO, the Provincial Government of Zambezia has made the process of obtaining permission to open a rural enterprise much easier. Previously, entrepreneurs had to go through a lengthy application process with an array of fees, which discouraged potential rural entrepreneurs from applying for a business license. In order to encourage rural entrepreneurship, Balcao Unico (BU) was developed. Balcao Unico, which translates to one-stop shop, is a one-stop location for applying for a business license. The one-stop shop allows potential entrepreneurs to fill out and turn in all the appropriate paperwork at one location; in addition, a single fee is paid. This effort to encourage rural entrepreneurship is working. In just one year, 143 applications were turned in. The BU continues to improve; it is becoming more efficient and offering more services to potential entrepreneurs. It can be expected that as improvement are made more and more businesses will apply for licenses, and more and more businesses will shift from the informal sector to the formal sector (UNIDO, 2003).

Mozambique is in the minority when it comes to government policies targeting rural industrialization specifically. In the majority of developing countries, rural industrialization is not a primary concern in program and policy interventions by the government. By focusing on issues important to rural areas, such as non-farm employment generation, poverty alleviation, and infrastructure development, rural industrialization is further developed, but not focused upon. Rural industrialization is
used as a mechanism to develop the previously mentioned issues prevalent to rural areas (UNIDO, 1995). When this is the focus, the result is a flourishing rural sector, with diversified employment and more options for generating income.

The lack of government focus on rural industrialization is further supported by the fact that there are not any state departments or ministries dedicated solely to rural industrialization. Rather, rural industrialization is addressed by a variety of state departments or ministries, each with different objectives and focuses. The end result is inefficient implementation of policies and programs, which hinders the development of rural industries.

2.2- Rural Industrialization in Transition Economies

Countries such as China, Vietnam, and Lao PDR are not only low-income, developing countries, but they are also in the midst of transitioning from centrally planned economies to market-oriented ones. In addition to the burden of promoting natural economic development, these transition countries must also attempt to simultaneously restructure their economic system.

History has shown there are two different paths which a country can take during its transition to a market-oriented economy, a swift switch or a gradual transition towards an open market. The former was the method practiced by Russia and many of the former Soviet Bloc countries in Eastern Europe. This method has been problematic thus far, with countries suffering fluctuating market performance and unpredictable economic situations. The latter, the method practiced most notably, by China has shown consistent economic growth and development (Rosegrant & Hazell, 2000).
Rosegrant and Hazell (2000) suggest that the differing levels of success are attributed to the rationale behind the transition to a market-oriented economy. Countries such as Mongolia and Kazakhstan began their transition out of necessity, with the breakup of the Soviet Union and the deterioration of the Council for Mutual Economic Assistance (CMEA). In contrast, the transition of Asian countries such as China, Vietnam, and Lao PDR was a result of discontent within the internal structure.

The “China” model of economic transition has its roots deep in rural society. During the 1980’s, in the early stages of China’s transition, the rural industry was the most dynamic sector in China’s economy (Selden, 1992). The majority of the population lived in rural areas, in contrast to the former Soviet countries, where urban areas housed the vast majority of their respective population. In addition, China and countries which have adopted similar transition models have been less developed than their Soviet counterparts, allowing the transition from a centrally planned to a market-oriented economy to be much smoother (Chan, Kerkvliet, & Unger, 1999).

The transition from a centrally planned economy to a market-oriented economy is complex; in a centrally planned economy, all components of the economy are interwoven with the others. Changes in one part of the economy if not carefully planned and implemented, can result in the entire economic structuring collapsing. Shifting from a centrally planned economy to a market-oriented economy requires the restructuring of government policies, fiscal and monetary systems, and the introduction of private entrepreneurship and the privatization or restructuring of state-owned enterprises (SOEs) (McMillan & Naughton, 1996).
China has been one of the most successful examples of a country transitioning from a centrally-planned to a market-oriented economy. It was among the first of the communist countries to begin transitioning to a market-oriented economy, beginning as early as the 1970’s. Research suggests that, in part, China’s successful transition is attributed to its focus on the rural development of the country. McMillan and Naughton explain (1996), “Some fascinating experiments in novel institutional forms have occurred in Chinese rural industry, firms that by comparison with textbook models and Western markets economy practices, have highly unusual ownership structures that have proven to be remarkably successful,” (p. 4).

China, Vietnam and Lao PDR, all of which had largely agrarian rural sectors prior to their economic transitions, were able to develop rural industries, beginning first as offshoots of the agricultural sector. Agro-industries, forestry, as well as traditional work of the farming off-season, such as handicraft production, developed early in these countries. The development of the rural industry has partly been credited to the loosely structured cooperatives and SOEs and the large informal sector present in these countries prior to their transition. In China, the informal sector and private activities accounted for thirty to fifty percent of the household income. Likewise, Vietnam and Lao’s transition benefited from the private-ownership and family farming that was common in rural areas. In contrast, in former Soviet and Central Asian countries, collectives in rural areas were not fully implemented or as centrally controlled, leading to a weak rural non-farm sector (Rosegrant & Hazell, 2000).

China’s rural industrialization included the intermingling of private, state-owned, and town and village (TVE) enterprises. The restructuring and integration of new
enterprises in the rural economy resulted in rural China being increasingly receptive to economic prospects (McMillan & Naughton, 1996).

The Asian transition economies have held high numbers of unproductive agricultural labor. When the push towards industrialization in rural areas occurred, the excess labor shifted to industrial work, without negatively affecting the agricultural sector (Rosegrant & Hazell, 2000). In fact, the agricultural sector has benefited. By shifting excess labor to rural, non-farm employment, the agricultural sector is more productive.

Transition economies, specifically Asian transition economies, have benefited from the presence of a strong informal sector in rural areas. Informal, non-farm employment has been in place in rural areas for years, resulting in a strong non-farm sector. Similarly, the large rural populations have made the push for rural industrialization imperative in these countries. The end result has been a successful incorporation of transitioning to a market-oriented economy and the formalization of a non-farm rural sector.

2.3- Rural Development and Handicraft Industries

Handicraft industries are an ideal employment option in the rural sector. Handicraft industries are small in scale and are most often home-based. In addition, the raw materials used to produce handicrafts are usually found locally and the methods of production are often rudimentary. Handicraft industries are ideal for entrepreneurs who lack start-up capital (Weijland, 1999).

Research pertaining to rural industrialization is most often focused on small-scale textile production. There is a limited amount of research focused on the role of craft
industries and rural economic development. Research on countries such as Mexico (Chibnik, 2000), Indonesia (Weijland, 1999), India (Sood, 2002), Thailand (Jongeward, 2002), and Ecuador (Kyle, 1999) have revealed the possibilities of developing craft industries as a source of sustainable development in rural areas. Weijland (1999) suggests that while cottage and craft industries are typically among the poorest industries and as a whole show no significant growth, those industries that do survive are able to yield high growth rates and contribute significantly to the livelihoods of rural dwellers.

Craft industries seem to be the most successful when the smallest of industries join forces and work together, this is referred to as ‘clustering’ (Weijland, 1999). Clustering, a method of rural development, proved successful in countries such as Indonesia (Weijland, 1999) and Tanzania (Kristiansen & Mbwambo, 2003). Clustering is simply the joining of multiple small-scale industries into a larger network, whether it is social or simply geographical. Clustering provides small-scale industries with many advantages; most importantly, it attracts suppliers and buyers. Suppliers and buyers are attracted to clustered industries for one central reason; clusters are able to produce larger quantities of products, which require more raw materials (benefits the suppliers) and more products (which appeals to the buyers). In addition, clustering provides the rural artisans with the opportunity to further their market. Working as a collective unit, artisans become more visible in the larger local and global markets (Weijland, 1999).

Oaxacan woodcarving in Mexico serves as an example of a successful handicraft industry in a low income country. The Oaxacan people were encouraged by various external sources to develop a handicraft industry. The Oaxacan people do not have a traditional craft with any historical or cultural significance, but created a local “folk”
craft. The Oaxacan artisans created carvings, which were brightly painted and often were mythical characters, which appealed to tourists visiting Mexico. In the beginning, the carvings were very simplistic and lacking diversity. However, regional and national agencies saw the potential of this handicraft as a source of economic development, and assisted the Oaxacan people in the developing and marketing of their product. This included pushing the Oaxacan people to combine their small-scale industries into a collective (Chibnik, 2000).

Likewise, the Sop Moei artisans of Thailand experienced much more success when they began working as a collaborative. Previous attempts to develop their handicraft industry as individual units resulted in a flooding of the local market. International NGOs connected the Sop Moei women to each other, and eventually a global marketplace (Jongeward, 2002).

Vietnam handicrafts artisans have “clustered” for hundreds of years, and continue to do so today. Handicraft industries are idyllic in Vietnam because of their established presence in the rural sector. Handicraft villages have been established settlements in the Red River Delta for hundreds, and some for thousands, of years and the art of production is established and tricks of the trade are passed down through family lines (Booth, 1997). For example, the Red River Delta is littered with well-known handicraft villages; Bat Trang is renowned for its pottery production, Dong Ho village for its traditional ink block prints, and Giap Nhi for its production of paper items (Malarney, 1999). These are just a few of the thousands of handicraft villages specializing in hundreds of trades (Booth, 1997).
Chapter 3- The Vietnamese Economy in Transition

Vietnam has undergone various changes in recent years. Shortly after World War II, the country was divided into two, North Vietnam and South Vietnam. The two Vietnams differed significantly in political and ultimately economic ideology. In 1975, the two countries were reunified, and attempted to develop as one country. However, it was only after several failed economic development plans and the introduction of Doi Moi that the Vietnamese economy began to grow. Through the course of this chapter, the recent history of Vietnam will be outlined; attempting to recap what changes the Vietnamese economy has undergone in recent times. In addition, the author will attempt to examine the future outlook of the Vietnamese economy based upon the recent economic history of the country.

3.1- A Brief History of Vietnam Prior to Doi Moi

Following the country’s separation, North Vietnam was led under a socialist government while the South was guided under democracy-oriented leadership. The differences in political ideology led to differing methods of economic development.

The Marxist-Leninist policy of socialism was found in North Vietnam as early as 1946 (Alpert, 2005). North Vietnam chose to keep its economy closed, importing as little into the county as possible. In addition, the North focused its economic development first on agriculture and later heavy industry. The North Vietnamese government referred to their method of development as “socialist industrialization.” This method entailed a slow approach to development, first developing the agricultural and small industries and using that as a building block to transcend into industrialization (Tuan, 1996).
The Northern government argued that “socialist industrialization” was the best way for the country to begin industrialization. By concentrating on agriculture first, it would help to establish a strong and healthy population, which was needed if the country wanted to industrialize (Thai, 1959). In addition, by the further development of the agricultural sector, the North Vietnamese believed that the incomes of rural dwellers would rise, in turn, raising the purchasing power of the country as a whole. They reasoned that greater purchasing power would make the transition into industrialization easier (Tuan, 1996).

Eventually, the North Vietnamese moved toward industrialization. These industries were centrally or provincially managed. However, the North Vietnamese were not interested in developing export-oriented industries, citing this as the cause of poverty in the country (Thai, 1959). Instead, the government encouraged industries to create products needed within the country.

In contrast, South Vietnam established a democracy, with a market-oriented approach to economic development. This included creating import-export relations with other nations (Griffin, 1998). Processing and light industries were the concentrations in the South. The Southern government did not have to go far to establish relations with other countries. The occupying American forces significantly helped the South Vietnamese economy (Tuan, 1996).

Similar to the North, South Vietnam also placed emphasis on the further development of agriculture. South Vietnam viewed the development of agriculture as a means of supplying the country with food. In addition, agriculture became an important
source of employment after the conclusions of the US-Vietnam War. The end of the war resulted in the loss of the military and wartime jobs (Lilenthal, 1969).

April 30, 1975 marks the reunification of North and South Vietnam into a single country. Hanoi assumed the role of political headquarters of the country. Therefore, the Marxist-Leninist policy of “socialism building” was put into place for the new Vietnam (Tuan, 1996). However, within just a few years, the Vietnamese government realized its current economic policies were not fostering the growth that the country needed and desired (Griffin, 1998). Several five-year plans were devised, but were ultimately unsuccessful. During the 1976-1980 Five-Year Plan, the economy only grew an average of 0.4 percent annually. The southern part of Vietnam suffered significantly, with a dramatic decrease in living standards. Major food shortages occurred in the early 1980’s, resulting from the collectivization of the agricultural industry in previous decades. This policy was also a complete failure with inflation rates reaching annual rates of 82.6 percent in 1982 and food prices increasing by 96 percent during the same year. Annual growth was only 1.3 percent, and from September 1985 to September 1986 prices increased by 700 percent, making this five-year plan an even bigger failure than the previous ones (Alpert, 2005).

3.2- Vietnam in the Age of Doi Moi and Beyond

By 1986, it became clear to the Vietnamese government that the current methods of economic development were not working. The country’s economy was stagnant; farmers were not producing enough rice to meet the domestic demand; debt continued to accumulate; industrial infrastructure was outdated; and trade relations were virtually
nonexistent. In addition, Vietnam’s economic development was already lagging compared to some of its Southeast Asian neighbors as a result of the war, and it continued to fall further behind as a result of unsuccessful development plans (Geib, 1999).

The Vietnamese government developed a new economic reform plan, *Doi Moi*, (or “renovation”) in response to the unsuccessful attempts at economic development. The goal of *Doi Moi* was to allow Vietnam to transition into a market-oriented system and allow for communist political power to stay intact (Dixon, 2003). *Doi Moi* called for the immediate implementation of needed macroeconomic policies with a gradual implementation of policies aimed at the economic development of the country (Geib, 1999).

The government chose to take a “bottom-up” approach to development with *Doi Moi*, with the first goal being the development of a sustainable agricultural sector. The development of the private sector, especially construction and service industries, were the next to be developed. Finally, the focus became overall economic development of the country (Diez, 1996).

*Doi Moi* proved to be successful for Vietnam. By 1989, Vietnam went from being a rice importer to the number three rice exporter in the world (Dodworth, Spitaller, Braulke, Lee, Miranda, Mulder, Shishido, & Srinivasan, 1996 & Geib, 1995), eventually climbing to the number two exporter by 2002. In addition, Vietnam experienced substantial growth of its GDP, with an annual growth of 7 percent during the 1989-1993 period, and 9.2 percent from 1993-1995. Amazingly, this level of growth was achieved
without the assistance of international developmental aid organizations, such as World Bank or the IMF, which opposed *Doi Moi* principles (Dixon, 2003 & Diez, 1996).

Since the late 1990’s Vietnam has gone through some economic highs and lows. Internally, the economic benefits from *Doi Moi* have peaked. The country has successfully transitioned into a market-oriented economy, which was the initial goal of *Doi Moi*. In order for Vietnam to continue its economic growth, a new economic plan needs to be devised. Externally, Vietnam was affected by the Asian financial crisis of 1997, though the impact was more indirect than direct. Many of the Asian countries which invested in Vietnam were hit hard by the crisis, resulting in capital being pulled from the Vietnamese economy (Van Arkadie & Mallon, 2003). The financial crisis also scared away Western investors and kept them from investing as readily in the area. The stagnation of the Japanese economy in the past decade has also slowed Vietnam’s economic growth. Japan had been a major contributor of foreign direct investment in Vietnam, and the stagnation of the Japanese economy led to a decline in Japanese investment. The global economic slowdown following the 9/11 terrorist attacks also impacted Vietnam (Alpert, 2005).

The average per capita income in Vietnam, as of 2004, is 540 US dollars (World Development Indicators, 2006). Therefore, Vietnam is still considered a low-income country, but it is important to note an overall improvement of quality of life in Vietnam in the recent years (Van Arkadie & Mallon, 2003). While the average income is just over 500 dollars annually, the actual purchasing power in Vietnam is relatively high. Vietnam’s GNI purchasing power parity (PPP) is 2,702 dollars annually. A dollar in Vietnam can buy nearly five times as much as it could in the United States. This is a
result of lower prices for goods and services. Figure 1 displays the income growth per capita in the country’s recent history. Overall, poverty has declined significantly, from 58% in 1993 to 37% in 1998 (Alpert, 2005), and down to 29% as of 2002.

![Vietnam's Living Standards](image)

Figure 3.1-Vietnam’s Gross National Income Per Capita: 1984-2004
Source: World Bank: World Development Indicators, 2006

While the income and the purchasing power of the “average” Vietnamese person is growing, the growth is not uniform. There are large income disparities between the rural and urban populations in Vietnam (Van Arkadie & Mallon, 2003). This income gap is continuing to widen and is most severe when comparing the income of an average Ho Chi Minh City resident to the average rural income of a rural resident. It is estimated that Ho Chi Minh City residents make 2.5 to 4 more than the average Vietnamese (Economist, 2005). Vietnam’s division of labor, with urban dwellers working in the higher paying more valued-added industries, such as the service sector, and rural dwellers primarily
working in the low-paying agricultural sector, is likely the cause of the economic gap between rural and urban dwellers.

![Vietnam's Employment Structure](image)

**Figure 3.2: Vietnam’s Economic Structure: 1990-2003**
Source: World Bank: World Development Indicators, 2006

The majority of the Vietnamese population, 74 percent, lives in rural settings. This number has stayed consistent, with the percent of the urban population growing slowly, from 15 to 26 percent between 1960 and 2004. The annual urban population growth is about three percent (World Bank, 2006). As a result, a large percentage of Vietnamese work in the agricultural industry and related fields (Dodsworth et al., 1996). As of 2003, 59.7 percent of the Vietnamese population works within the agricultural industry (see Figure 3.2). The remaining population is divided between the
manufacturing industry and the service industry, with 16.4 percent in manufacturing and 23.9 percent working in service-related fields (World Bank, 2006).

While agriculture accounts for nearly 60 percent of the country’s total employment, it does not yield 60 percent of the country’s GDP. In fact, of the three main industries in Vietnam, the agricultural sector earns the least. (see Figure 3.3) In 2004, this sector accounted for only 21.8 percent of Vietnam’s GDP. Meanwhile, the manufacturing and service industries each account for just under 40 percent of the country’s GDP. Agricultural work is the primary work of the rural Vietnamese, 76 percent of the population; however, only 21.8 percent of the GDP is being dispersed into the rural communities. The division of labor and income earned has resulted in a huge income differentiation between the rural and urban Vietnamese, as well as between the agricultural sector and the manufacturing and service sectors.

![Vietnam's Economic Structure (Output)](image)

**Figure 3.3- Vietnam’s Economic Structure: 1985-2004**

Source: World Bank: World Development Indicators, 2006
Following the introduction of *Doi Moi*, Vietnam began to take part in the world economy. Vietnam’s main exports are garments and textiles, footwear, coffee, rice, and crude oil. Its imports consist of industrial equipment, computers and technology, fertilizers, automobiles, and chemicals. Currently, Vietnam is running a trade deficit (see Figure 3.4). While there are a large number of products leaving Vietnam, these products do not have the high market value that the country’s imports hold (World Bank, 2006).

![Vietnam's International Trade](image)

*Figure 3.4: Trade Structure of Vietnam: 1996-2002*
Source: World Bank: World Development Indicators, 2006

With the foreseen fall of the Soviet Union in 1989, the Vietnamese economy was forced to reorient its economy and trade relations towards ASEAN (Association of Southeast Asian Nations) and other Asia neighbors. Vietnam managed to do this in a relatively short time, making up for the loss of Soviet aid and trade relations almost completely by 1993 (Alpert, 2005).
Today, Vietnam’s main trade partners are located in Asia. Asian countries account for 35 percent of Vietnam’s exports and 54 percent of its imports. Japan and Singapore are among Vietnam’s top trade partners. In 2002, Vietnam imported 12.1 percent of its goods from Japan and exported 14.9 percent of its goods to Japan. As of 1999, Vietnam has had *most favored nation* status from Japan. During that same year, Vietnam imported 11.8 percent of its goods from Singapore and exported 5.5 percent of its goods to Singapore.

In addition to Singapore, the entire ASEAN region has become a major trading partner with Vietnam. During the 1980’s trade with the ASEAN countries was nearly nonexistent, because of differing political ideologies. However, during the 1990’s trade between Vietnam and ASEAN increased, especially between Vietnam and Singapore. Trade relations between Vietnam and the ASEAN nations solidified further in 1995, when Vietnam became a member of ASEAN (Alpert, 2005).

With the removal of the trade embargo in 1994 and the establishment of normalized trade relations with the US in 2001, trade with the United States is on the rise. As of 2002, the United States was Vietnam’s 7th largest trade partner, but this is expected to change as the effects of the US-Vietnam trade agreement become more apparent. US tariffs on Vietnamese products were reduced from 40 percent to 3 percent, which is sure to influence exports to the United States. Major exports to the United States include seafood, footwear, coffee, and textile garments (Alpert, 2005).

Vietnam also has significant trade relations with China, although these trade relations are often obscure, with a large informal sector between the two countries (Beresford & Tran, 2004). China and Vietnam “normalized” their trade relations in 1991,
at which time trade between the countries flowed freely. However, the Vietnamese market was quickly flooded with cheap Chinese goods competing against domestic goods. In September 1992, the Vietnamese government issued an import ban on 17 product groups. The majority of these groups appeared to be aimed at Chinese imports. The Vietnam Trade Promotion Agency, in 2000, reported exports to China reached 1.5 billion, which was a 78 percent increase from the previous year. China is the largest importer of Vietnamese rubber, vegetables, and fruit (Alpert, 2005).

Since the initiation of Doi Moi in 1986, export earnings have increased by fifteen times. Exports currently account for half of the country’s GDP, suggesting that Vietnam is transitioning into an open economy. Vietnam boasted huge export growth, 25 percent in 2000 and similar numbers during the first two quarters of 2001. However, the 9/11 attacks had a huge impact on Vietnam’s exports in 2001 and 2002; the third quarter of 2001 yielded a growth of just 1 percent and the forth quarter resulted in a -10 percent rate of growth. This continued into 2002, with a -12 percent growth rate during the first quarter of the year. While Vietnam has suffered negative export growth, its decline is not nearly as bad as some of its neighbors who were more fully integrated into the world economy, such as Indonesia, South Korea, and the Philippines (Alpert, 2005).

Vietnam continues to have a trade deficit, reaching a high of 4 billion dollars in 1996. This large trade deficit is likely the result of importing high value products and materials for the industrialization of the country. As of 2005, Vietnam’s external debt looms around 19 million dollars (World Bank, 2006).
The main contributors of foreign direct investment (FDI) in Vietnam are other Asian countries. The Asian NICs were among the first countries to invest in Vietnam. It was the goal of the NICs to develop an Asia which was export-oriented (Alpert, 2005). In addition, Japan has historically been a significant contributor of FDI in Vietnam. However, trouble within the Japanese economy has led to a decline in Japanese capital invested in Vietnam (Van Arkadie & Mallon, 2003).

Vietnam’s high point of FDI was 1996 (see Figure 3.5), and since the introduction of Doi Moi, the low point was in 2001. The decline of FDI in Vietnam can be explained as being a result of the recession in the Japanese economy, the Asian Financial Crisis, and the post-9/11 global economic recession (Alpert, 2005).

The majority of FDI in Vietnam is distributed to the southern half of the country, specifically, Ho Chi Minh City. The second largest portion goes to the Hanoi/HaiPhong region. Less than 20 percent of foreign investment goes to the rural areas, where the

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**Figure 3.5: Foreign Direct Investment in Vietnam**
Source: World Bank: World Development Indicators, 2006
majority of Vietnamese live (Dodsworth et al., 1996). When comparing the north and south regions of Vietnam, the south is clearly the winner. Today, the FDI in the north has not yet reached the FDI levels that the south boasted in 1986 (Diez, 1996).

FDI plays an important role in the advancement of the Vietnamese economy. Without an increase in FDI, it is unlikely that the Vietnamese economy will return to the growth rates that the country experienced in the 1990’s. Therefore, it is imperative the Vietnam continues to attract foreign capital to further economic development (Alpert, 2005).

3.3- Government Policies on Rural Industrialization

Though Vietnam has had great success since the implementation of Doi Moi there is a question regarding the future of the country. Abundant natural resources and a large (and cheap) working population give Vietnam the potential to grow, but some major problems need to be addressed (Alpert, 2005).

The global economic slowdown has highlighted the limitations of the Vietnamese economy. The protection and favoritism of state-owned enterprises by the Vietnamese government needs to be addressed, and the private sector needs to be provided with further support and treated fairly by the government. Inefficient SOEs continue to acquire large amounts of state funding, while the private sector is discriminated against (Beresford & Tran, 2004). Also, the Vietnamese government needs to further develop the banking sector and the legal system if the country hopes to continue to improve its place in the world market. Trade barriers also continue to keep the Vietnamese economy from advancing (Alpert, 2005).
As of late, the Vietnamese government and the donor community have begun to realize the importance of developing the rural sector for the sustainable growth of the whole economy, making it less dependent on international economic conditions. Central goals of the Vietnamese government include the alleviation of poverty and the urban-rural income gap. In 1998, the government expressed concern that “economic growth should be sustainable and avoid unbalanced growth which has resulted in megacities—with all their attendant social and environmental problems,” (World Bank, 1998, p. 1). Thereafter, government policies and institutional reforms began to focus on the development of rural areas throughout the country. However, it was not until 2001 that the government began shifting from advancing the agricultural sector to developing the industrial sector in rural areas (MARD, 2001).

The government has acknowledged that the underdevelopment of the rural economy will eventually transcend to the breakdown of the entire Vietnamese economy. While urban industrial development, with its fast returns, seems advantageous to the Vietnamese economy, the country’s overall growth will not continue without also developing the rural sector. Within rural areas, it is becoming clear that agricultural employment opportunities and production are not likely to increase, therefore rural industries can play a significant role in the development of rural Vietnam and the continued growth of the country as a whole (MARD, 2001).

Issues related to rural development and rural industrialization are addressed by several ministries, provincial People’s Committees, and various other organizations. Policy management for Vietnam as a whole is the responsibility of the Ministry of Planning and Development. Other ministries responsible for matters related to rural
development and rural industrialization include the Ministry of Agriculture and Rural Development (MARD), the Ministry of Industry, and the Ministry of Labor, Invalids, and Social Affairs (MOLISA) at the national level and People’s Committees at the provincial level (MARD, 2001).

MARD is the ministry primarily responsible for the rural development of Vietnam and addresses issues pertaining to rural development, such as promoting development through rural industrialization. Within MARD there are several departments- the Department for Agro-Forestry Processing and Rural Industries (DAFPRI) at the central level and the Departments of Agriculture and Rural Development at the provincial level. In addition, other ministries objectives spill over into the rural sector. The Ministry of Industry focuses on industrial development, although its focus is on heavy industries and development in the urban sector. MOLISA’s objectives are immensely relevant to rural industrialization, specifically, the generation of employment and issues pertaining to social affairs in rural areas (MARD, 2001).

At the provincial level, People’s Committees have significant influence over rural development and rural industrialization policies. People’s Committees are responsible for the allocation of government funds within provinces. In other words, the actual implementation of rural development policies lies in the hands of the provincial People’s Committee, giving them greater control over the allocation of funds and the direction of rural development (MARD, 2001). This has been problematic in that these committees tend to favor heavy, large-scale industries, which are not successful in rural areas, and agricultural development, which is not experiencing substantial growth. In addition, local government leaders tend to view their role in business as one of taxation and regulation,
as opposed to providing support and assistance to developing businesses (World Bank, 1998).

Other important organizations, pertaining to rural industrialization, include the Farmer’s Union, Vietnam Women’s Union, and the Youth Union. Each of these organizations has massive memberships and has been extremely successful in outreach initiatives in rural areas. These organizations also participate in micro-financing rural industrial projects (MARD, 2001).

Transitioning from a centrally planned economy to a market-oriented economy made it necessary for the Vietnamese government to alter its institutional framework to be more supportive of trade and commerce and to encourage the development of rural industries. Centrally-planned ideologies prevented small- and medium-scale industries from entering the global market, and in some cases from entering the formal domestic market. Taxes and regulations encouraged many handicraft industries to remain in the informal sector (Vu, 1999). In addition, rural industries have to compete with the favored urban industries and inefficient SOEs, remnants of pre-transitional economy Vietnam (World Bank, 1998). Today, the Vietnamese government is striving to alter the institutional framework to support rural development and rural industrialization in several ways, such as:

a) Introducing a central mechanism to coordinate the formulation and implementation of policies and programs at the national, provincial, and district levels for rural industrial development,
b) Establishing a Technical Working Group on Rural Industry Development under the International Support Group attached to MARD focusing on rural industrial development;

c) Developing participatory approaches to rural and regional industrial planning (MARD, 2001).

Multiple authorities having oversight on policies pertaining to rural development and industrialization is a problem which needs to be addressed. If the government were to streamline the policies of the numerous authorities dealing with rural development and industries it would help prevent biases against rural industries. Currently, People’s Committees at the provincial level have the most influence over rural industrial policies. Unfortunately, the provincial People’s Committee tends to favor large scale industries (MARD, 2001).
Chapter 4- Handicraft Industries in Vietnam

In Vietnam, the handicraft industry begins with the village and ends with the export market. Major players in the industry include the artisans and craftworkers, the handicraft exporting companies, and the Vietnamese government. For their handicraft industry to be a success, these contributors must work together.

A successful handicraft industry is one which employs a large number of artisans and craftworkers as well as one which generates revenue, according to the Vietnamese government (MARD, 2001).

![Successful Handicraft Industry Diagram]

Figure 4.1- Major Players in the Vietnamese Handicraft Industry

Handicraft artisans and craftworkers are the producers of goods. Artisans produce the handicrafts in the villages where they live, as they have done for thousands of years, using materials found locally. Production of handicrafts often encompasses the entire village, with master artisans and craftworkers creating the final product (ranging from small children to women and young men). Villagers who do not work as craftworkers...
often work in fields which directly or indirectly impact the production of handicrafts, such as collecting raw materials or transporting materials and finished products to their desired destinations.

Handicraft exporting companies, the second major player in the handicraft industry, are responsible for finding the market in which Vietnamese handicrafts will be sold. These include domestic markets, targeting tourists, as well as the export market. Handicraft exporting companies tend to focus on the larger, more lucrative, global market. The domestic tourist market typically includes cheap items that travel easily, which are attractive to travelers. Handicrafts which are exported to the global market are of higher quality and higher price than those sold in domestic markets. Bookmarks, scarves, and coasters are common domestic market items, while wall hangings, tablecloths, and baskets are among items exported to the global market.

In addition to finding a market for the handicrafts, exporting industries also work to adapt goods to better suit the global markets’ ever-changing taste, as well as improving the quality of handicrafts. This task is often done in collaboration with handicraft artisans, by providing artisans with training and skills to develop new product designs. Improving product quality and design benefits both the artisans and the exporters. By improving the products, the artisans, as well as the exporters, are assured of a continued source of income generation.

The government’s role in promoting the handicraft industry, which will be discussed later in this chapter, is widespread. The opening of the Vietnamese economy has enlarged its export market, which has resulted in a rejuvenation of handicraft production in the villages (MARD, 2001). Policies pertaining to rural development and
industrialization, infrastructural development, and trade and exporting policies, indirectly affect handicraft industries. In addition, as Vietnamese handicrafts have become more popular in the global market, the government has realized the economic benefits, as well as the employment opportunities, that further development of handicraft industries can provide.

4.1- Handicraft Villages

The presence of handicraft villages in Vietnam began sometime around 200 B.C. The development of the oldest handicraft villages was contemporaneous with the cultural, social, and agricultural development of Vietnam as a whole, making handicraft villages a vibrant part of the country’s history. Villages such as Ha Dong silk village, Phu Vinh rattan and bamboo village, and Bat Trang ceramic village have been around for 1,700, 700 and 500 years, respectively (MARD, 2001).

Handicraft village origins go back to Chinese and Vietnamese traders, who brought new trades and skills to villages. Often, these traders established themselves in the villages; teaching the villagers to develop and specialize in a specific trade, such as woodcarving or ceramics (Booth, 1996). Thereafter, villages specialized in specific products, becoming known as the “ceramics village” or the “puppet village.” Traditionally, handicraft products were produced for daily use, but today are appreciated as much for the artistic and cultural value as they are for traditional purposes (MARD, 2001).

Handicraft villages served not only as the production site of handicrafts, but also the locale of the raw materials used to produce the handicrafts. Essentially, the village
serves as a vibrant cultural center. A MARD report (2001) explains, “Today’s craft village is an assembly point of long inherited traditional values and techniques that helped create a culture, an economy, and a social environment,” (p. 3-2). Villages such as Bat Trang exemplify this: the majority of the villagers are craftworkers, Bat Trang ceramics are sold all over the world, and the village has become a popular tourist destination because of its unique environment.

Some of the earliest specializations in the Red River Delta, where handicraft villages first developed, include pottery (200 B.C.), gold smithing (547 A.D.), and various other trades between 1000 A.D. and 1600 A.D. By the 18th century, there were at least 108 different trades or handicrafts in the Red River Delta (Booth, 1996). Today, there are over 200 types of crafts produced in Vietnam (MARD, 2001).

French colonialism had only a minor impact on handicraft villages in the Red River Delta. The French did not involve themselves very much with the handicraft villages and the potential for creating an income-generating industry. They did not believe the production of handicrafts was capable of blooming into a successful business. However, the French did help to improve the villages and handicraft production; the colonialist's attempt to change the Vietnamese social structure pushed many Vietnamese to move back to these villages (Booth, 1996).

The mid-1950's until the mid-1980's was a difficult time for handicraft villages in the Red River Delta. Many villages, especially those villages near Hanoi, were abandoned during this time period. This was the result of the fear of being accused of sympathizing with liberation forces and Marxist ideology promoting the abandonment of
these villages (Booth, 1996). During this time, handicraft production was taken over by the government, creating inefficient state-owned enterprises.

Currently, the importance of the handicraft villages and the handicraft trade is beginning to be appreciated by the Vietnamese government. The government has recognized the cultural and economic importance of the villages. Many villages are receiving "facelifts," improvements to attract tourism to the villages, while allowing the villagers to continue producing their handicrafts (Five Hanoi villages get facelifts, 2004). Likewise, many handicraft villages have received funding in order to become more competitive in the global handicraft market (Craft villages call for extra incentives, 2003).

4.2- Government Involvement in Handicraft Industries

The Vietnamese government has traditionally played a limited role in the success of Vietnamese handicraft industries. However, its role in the continued advancement of handicraft industries is growing in importance, as the government has begun to take steps towards implementing more polices which benefit the development of the industries.

Since the implementation of *Doi Moi*, the Vietnamese government has made efforts to encourage Vietnamese entrepreneurs to sell to the international market. In 1998, the Vietnamese government began to make efforts to simplify the process of gaining permission to export goods. Prior to 1998, industries had to fulfill three requirements: approval of the People’s Committee, a license from the Ministry of Trade, and a working capital of at least $200,000. The strict requirements kept many handicraft entrepreneurs from exporting goods to global markets. The implementation of Decree No. 57/1998/ND-
CP resulted in each of these requirements being abolished, in turn, making it easier for handicraft businesses to export goods (MARD, 2001).

Today, handicraft exporting businesses benefit from various tax incentives. For example, they enjoy a 0% exporting tax. Other tax incentives include refunding of value-added taxes by the Vietnamese government and a lower production tax for businesses producing and exporting handicrafts. The government also provides support for handicraft businesses wishing to participate in international craft fairs and exhibitions. Businesses dealing with handicrafts are able to obtain land easier than other businesses and they often receive funding from the government for the training of artisans and craftspeople. Craft Link and Ngoc Dong, two of the handicraft exporters interviewed for this research, cited this as one of the incentives they receive as a handicraft exporter (Interview 1, 2005).

Individual artisans receive benefits from the government for producing handicrafts and are eligible for funding for further training. In addition, specifically targeted groups, such as ethnic minority groups, do not have to pay any taxes the first three years they are in business (MARD, 2001).

While the government has taken steps towards making it easier to export goods, the benefits and support provided by the government vary based upon the type of handicraft industry. For example, prior to 2004, Ngoc Dong Weaving Company was a cooperative. Cooperatives are under the jurisdiction of the district government, while companies are under the provincial government. Governing of businesses varies, based on which level of government the business falls under (Interview 2, 2005).
At the district level, People’s Committees have significant influence over rural development and rural industrialization policies. People’s Committees are responsible for the allocation of government funds within districts. In other words, the actual implementation of rural development policies lies in the hands of the district People’s Committee, which gives the district People’s Committees great control over the allocation of funds and the direction of rural development (MARD, 2001).

This has been problematic in that district People’s Committees tend to favor heavy, large-scale industries, believing that large-scale industries will generate more profits than small-scale industries. Contrary to this widespread belief, they are not as successful as small-scale industries in rural areas. Similarly, People’s Committees at the district level favor agricultural development over rural industries, though the agricultural sector has not experienced substantial growth recently. The local government leaders tend to view their role in business as one of taxation and regulation, as opposed to providing support and assistance to developing businesses (World Bank, 1998).

As a cooperative, handicraft producers are often unable to export their goods directly, and have to sell their goods to an intermediary, that exports the goods. This was the case for Ngoc Dong Weaving Company. As a cooperative, Ngoc Dong sold its goods to a company located in Hanoi. The presence of a middleman resulted in fewer profits for Ngoc Dong. In addition, working with a middleman meant that Ngoc Dong was unable to establish itself as a global handicraft industry (Interview 2, 2005).
4.3- Exports of Handicrafts

The handicraft exporting industry has changed significantly in recent decades. Producing handicrafts to sell to the global market is not a new idea; in fact, handicraft sales was used from 1975-1985 as a way to pay off Vietnam’s war debt. However, this was through government-owned, government-run cooperatives, which put handicraft artisans under the minimal pay and maximum production scheme. Government-run cooperatives were neither efficient nor profitable, resulting in the near standstill of the Vietnamese handicraft industry from 1985-1992 (Booth, 1996).

Beginning in 1992, the Vietnamese government began encouraging artisans to turn their traditional skills into business ventures. As a result, the reemergence of small, family-run handicraft industries began in 1992. The Vietnamese government has continually encouraged the development of SMEs, especially handicraft industries.

Today, the Vietnamese handicraft industry continues to grow. It is estimated that handicraft village production grows nearly 9 percent annually. In addition, the handicraft industry employs over 10 million Vietnamese workers (Craft villages call for extra incentives, 2003). In the Red River Delta, handicraft villages continue to grow because of population growth, limited agricultural activity (Booth, 1996) as well as government promotion of handicraft industries.
As the handicraft industry has continued to develop, it has experienced expansion from small, family run businesses to the introduction of larger, global enterprises. In the early days of handicraft industries, SME and home industries dominated. Today, with the focus on exporting to the global market, larger exporting businesses have entered the picture. Exporting businesses and the smaller, handicraft producing villages collaborate, with the exporting businesses buying handicrafts from the smaller industries, becoming the middleman between the producer and the buyer (MARD, 2001).

The recent success of Vietnamese handicraft industries can be attributed to a variety of factors. First, the transition from a centrally-planned to a market-oriented economy has impacted the expansion of handicraft industries significantly. The opening of the Vietnamese economy called for the introduction of Vietnam in the global marketplace. As a result, the Vietnamese government began encouraging the opening of
exporting businesses, a niche that handicraft industries fell into easily. Handicrafts require little capital for production, allowing for business development at a low cost.

Second, handicraft industries have begun to receive encouragement and support from the Vietnamese government, which has recently realized the marketability of handicrafts in the global market and has taken measures to encourage the development of the industry. Encouragement has come in the form of tax incentives, opportunities for acquiring land, and educational and development opportunities for ethnic minority groups.

Finally, the popularity of handicrafts among Westerners has contributed to success of handicraft industries in Vietnam. Globalization and tourism have introduced western consumers to Vietnamese handicrafts, which are attractive to tourists because they are able to connect the product to the village where it was created.
Chapter 5- Handicraft Villages in the Red River Delta

As stated previously, handicraft villages are a phenomenon that has been present in Vietnam for thousands of years. Handicraft villages in Vietnam are unique in that a village only produces one item or type of product. Examples include villages producing ceramic products, such as Bat Trang village and Dong Ky village, a village dedicated to the production of wood furniture.

Handicraft villages in Vietnam are communities where at least 40 percent of the working villagers (excluding children, the elderly, and the disabled) participate in some part of the production of handicrafts. This can range from people collecting or cultivating the raw materials necessary for the production of the handicrafts or the transporting of the goods, in addition to the actual production of the handicrafts.

Currently, there are 2,017 official handicraft villages. “Official” meaning that they are recognized by the Vietnamese government, fulfilling the above-stated requirement. However, there are many more villages in Vietnam that generate income through the production of handicrafts. They include the village of ethnic minority groups, or “hill tribes” and villages where less than 40 percent of the village participates in handicraft production (Craft villages call for extra incentives, 2003).

As the popularity of handicrafts has increased in the global market, the importance of handicraft villages has been acknowledged by the Vietnamese government and handicraft exporting companies. The government has begun to assist in the further development and preservation of handicraft villages.
This chapter will highlight two handicraft villages in the Red River Delta visited by the author. The villages, Dong Ho and Ngoc Dong, are vastly different from one another. Dong Ho, a historic and well-recognized handicraft village in Vietnam, according to the government standards does not qualify as a handicraft village, with only three families continuing the handicraft tradition. In contrast, Ngoc Dong more than qualifies as a handicraft village, but does not have the historical legacy which Dong Ho has. Dong Ho village is well-known because of the unique folk paintings produced there. In contrast, Ngoc Dong is one of the hundreds of villages in Vietnam that produces woven handicrafts. Dong Ho has relied on tourism to sell their goods while Ngoc Dong has become producers of items to be exported to the global market.

5.1- Dong Ho Village

Dong Ho village is a handicraft village in Bach Ninh province (see Map 1.2), 40 kilometers east of Hanoi. It is the smallest province in Vietnam, as well as the most densely populated with a population of 987,400 people. Bac Ninh boasts many handicraft villages, many of which have histories which span hundreds of years. In addition to Dong Ho, there is Bui Xa, a water puppet producing village and Dong Ky, a carpentry village.

Dong Ho village has the historical legacy of being the “folk painting village” in Vietnam. Dong Ho paintings display local folktales, historic events, and social mores (see Photo 5.1). These paintings are widely dispersed during the Vietnamese New Year, Tet, and often displayed in homes. At one point in history, nearly the entire village was involved in the production of the paintings. Since the domestic market demand for Dong Ho paintings has declined, today, there are just three families involved in the production
of the paintings full time. Two of the families have been producing Dong Ho painting for 20 generation.

Photo 5.1: Dong Ho painting with traditional image

Dong Ho paintings are distinctive in several ways. First off, the paintings are on a paper made from a blend of rice and Dzo bark. The Dzo tree is unique to this region. The combination of rice and bark gives the paper an iridescent coloring. The second unique aspect of the Dong Ho paintings is that the paintings are stamped onto the Dzo paper. There is a stamp for each color placed of the painting (all things red on one stamp, black on another, etc.). The stamps are carved into wooden blocks, which are eventually pressed onto the Dzo paper (see Photo 5.2).
Traditionally, the Dong Ho paintings come as a series of images telling stories familiar to the Vietnamese culture. The paintings are strongly connected to Vietnam’s agrarian and pastoral history, with the paintings displaying chickens, ducks, farming activities, as well as Buddhas and Vietnamese folk tales. As Dong Ho artisans have begun to focus upon the tourist market, Dong Ho paintings have begun to diversify, in order to appeal to the foreign market. Artisans do so by incorporating images which are not traditionally found in Dong Ho paintings. Also, Dong Ho artisans have expanded their product line for the tourist market. In addition to the traditional Dong Ho paintings,
Artisans produce and sell calendars, journals, postcards and greeting cards with the traditional images, as well items with non-traditional images (see Photo 6.3).

Photo 5.3: New product line by Dong Ho artisan

The popularity of Dong Ho paintings has increased recently as a result of growing international tourism. Located 40 kilometers east of Hanoi, Dong Ho serves as an ideal location for village tourism with its close proximity to Hanoi and its close vicinity to other handicraft villages in the region. In addition, Dong Ho has become a popular tourist attraction because tourists are able to see the creation process of the handicraft, from producing the paper to the printing of the paintings (see Photo 5.4).
The creation of a tourism market has allowed the three families in Dong Ho village to continue creating the paintings. These handicraft artisans have tailored their craft to the tourist industry. This includes Dong Ho village being incorporated into the “craft village tourist circuit,” which is a day-long tour offered to visitors, enabling them to visit several handicraft villages. Other villages include Bat Trang, a pottery village and Dong Ky, a carpentry village.

In partaking in the tourist circuit, Dong Ho village, or at the very least, the households which still are involved in handicraft production, have become as much a source of entertainment as a production point of handicrafts. Of the three households
producing the traditional paintings, two of the households provide demonstrations and
tours of the home, to give tourists a feel of what it is like to produce the handicrafts.
Tourists are shown the step-by-step process of producing the paintings, from the making
of the paper, to the making of the paint, and finally the stamping of the individual colors
onto the paper.

Focusing on the tourist market does not allow Dong Ho to use handicraft
production as a sustainable form of rural development. The tourist market does not
consume enough Dong Ho paintings and products to call for more than three families to
produce the goods. While the production of the Dong Ho products benefits three families
in the village, it does not largely affect the community as a whole.

5.2- Ngoc Dong Village

While Dong Ho handicraft artisans have experienced resurgence in sales as a
result of tourism, Ngoc Dong village, as well as other surrounding villages, has
experienced increased handicraft production for an entirely different reason. Ngoc Dong
artisans have benefited because of a handicraft exporting business in the region, which
buys weavings from artisans in Ngoc Dong and surrounding areas.

Ngoc Dong is 50 kilometers south of Hanoi, in Ha Nam province (see Map 1.2). Currently, Ha Nam province has a population of 820,100. Ngoc Dong and five
surrounding villages make up a 7km² area which is known for its production of woven
items.

Ngoc Dong is one of the many weaving handicraft villages in Vietnam. As is the
case in many handicraft villages, weaving was a secondary source of income, behind
farming. Therefore, the intensity of weaving in Ngoc Dong increases during the off-season of the agricultural sector, with less weaving being done during the planting and harvesting seasons. However, with the introduction of Ngoc Dong Weaving Company, more weavers have been able transition into full-time weavers.

The prevalence of weaving at the households in Ngoc Dong is apparent. Villagers are seen weaving in their homes, weaving materials are found in and around homes, and completed weavings are piled around homes. This is in contrast to Dong Ho village, where only three households still produce the paintings, and the fact that they do so is well advertised (i.e. signs outside of the homes). Artisans in Ngoc Dong do not advertise their work. There is no need to advertise, since there is not a tourist market in the area.

Within Ngoc Dong village, there are weavers who weave for Ngoc Dong Weaving Company, as well as small, independent handicraft industries (see Photo 5.5). The artisans who do not weave for Ngoc Dong Weaving Company typically do not export their product on their own. Instead, they rely on exporting businesses to sell the goods in the global market. One artisan, the uncle of the director of Ngoc Dong Weaving Company, produces rattan furniture in his home (see Photo 5.6), which he sells to several businesses in Hanoi. He made clear that he does not know what happens to the furniture once it goes to Hanoi. When asked why he did not choose to export his goods, he explained that it would be too complicated for a small business like his to do so. However, the master artisan explained that he is content with his business as is; he makes enough money to live comfortably, without being over burdened by complications associated with exporting handicrafts.
With some notable exceptions like him, handicraft production in Ngoc Dong and surrounding communities has increasingly become dependent on the handicraft exporting business, Ngoc Dong Weaving Company. The business has supplied over 30,000 handicraft artisans in Ngoc Dong and surrounding villages with continuous work. As the business continues to grow, the demand for handicraft artisans will grow and the available work for artisans will continue to grow.
Artisans who weave for Ngoc Dong Weaving Company receive assignments from an intermediary, a collection point, which receives their assignments directly from Ngoc Dong Weaving Company. Collection points are used to connect Ngoc Dong Weaving Company with artisan in Ngoc Dong and surrounding areas. These collection points are employed by the Weaving Company, with the responsibility of creating contractual relationships with artisans in the area. Ngoc Dong Weaving Company supplies the collection points with the designs desired and the supplies needed. Artisans have contracts with the collection points, committing to making a specific number of items within a specified period. The artisans are given the materials and
training for the specific items they will be weaving. From there, the weaving is done in the home, allowing for artisans to work their weaving around their everyday lives.

5.3- Causes of Village Growth

As seen in the two case studies above, the growth of handicraft villages in Vietnam can be attributed to two causes. First is the growth of global consumption of handicrafts and in turn, the expansion of the Vietnamese handicraft exporting industry. Second, the continued growth of international tourist arrivals in Vietnam and increased tourism in handicraft villages located near large cities, such as Hanoi.

The increased popularity of Vietnamese handicrafts in the global market has played another key role in the recent development of handicraft industries in Vietnam. However, the case studies reveal very different paths that individual villages have taken in their development of handicraft industries. Ngoc Dong, as well as surrounding villages, has experienced a significant growth in the non-agricultural sector with the presence of Ngoc Dong Weaving Company. The development of a non-agricultural sector in Ngoc Dong has allowed rural dwellers to seek full-time employment outside of the agricultural sector. Ngoc Dong dwellers have historically used weaving as a secondary source of income; however it is only since the inception of Ngoc Dong Weaving Company that weaving has become a primary source of income.

Like other communities in the Red River Delta, Ngoc Dong has a high population density, with the majority of its residents relying on agricultural work for their sustenance. Agricultural productivity in Vietnam is waning; the sector is simply not able to absorb all the workers in the rural areas. By partaking in the export market, weavers in
Ngoc Dong and surrounding communities are able to diversify employment options. Shifting workers from agriculture to weaving full-time allows the agricultural sector to be more productive, by not having to take in as many workers. In addition, weaving, with the introduction of an exporting business, is a full-time source of employment, while allowing workers flexibility. Flexibility allows rural workers to work at home, while taking care of household responsibilities, such as childcare or tending a garden.

Dong Ho has not experienced growth in handicraft production in the same way as Ngoc Dong village. Dong Ho has turned to tourism as its main market. As a result, artisans who are still producing handicrafts are able to sustain their production, but there was not enough growth to integrate more workers in the industry. Culturally, by turning to the tourist market, Dong Ho and its paintings have received more exposure; tourists are able to experience the production of Dong Ho paintings, in its traditional setting. However, the growth of the Dong Ho painting industry is minimal; folk paintings serve a niche market, appealing to tourists and cultural enthusiasts. In contrast, Ngoc Dong’s products appeal to a much larger market, with a larger product line. Consumers can purchase a product made by a Ngoc Dong weaver without ever knowing it was made in Ngoc Dong or Vietnam.
Chapter 6- Marketing Networks in Handicraft Industries

As stated previously, handicraft exporters have played a key role in the recent development of handicraft industries in Vietnam. This chapter draws on the interviews with three exporters: Craft Link, Ngoc Dong Weaving Company, and Hoa Lu Fine Art and Handicrafts. Each of these companies export handicrafts from Vietnam, but their business techniques and objectives are vastly different from one another. Craft Link, in addition to being an exporter, also has a small domestic market and a branch dedicated to the advancement of handicrafts in Vietnam. Additionally, Craft Link is a fair-trade, not-for-profit business. Craft Link’s interests do not lie in generating profits, but in making the world aware of traditional handicrafts in Vietnam and further developing the industry. Ngoc Dong Weaving Company does not have direct contact with handicraft artisans, instead relying on collection points, which serve as the middle man. Ngoc Dong exclusively serves the export market. Finally, Hoa Lu Fine Arts and Handicrafts is a company which does not work with handicraft artisans at all.

6.1- Craft Link

Craft Link is a fair-trade, not-for-profit business. It was created in 1996 by several international nongovernmental organizations, including Mennonite Central Committee, Oxfam, and the Ford Foundation, along with Vietnamese partners. Craft Link’s main objective is to provide handicraft artisans with a fair wage, as well as to provide affordable items for western consumers. In addition, Craft Link takes all profits earned and reinvests them in the further development of Vietnamese handicrafts. Craft Link is a
unique example of a handicraft exporting industry, the company’s focus is not earning profits, but to further develop, conserve, and revamp Vietnamese handicrafts.

Upon its opening in 1996, Craft Link was a company serving local markets (see Photo 6.1), such as tourists, expats, and local Vietnamese patrons. In 1998, Craft Link began exporting goods. That first year, export sales accounted for only 3 percent of Craft Link’s sales. However, as time has gone on, the export market expanded to 50 percent of sales in 2000, and exports account for 75 percent of Craft Link’s sales today. Initially, the majority of the goods were shipped to other Asian countries, which served as
intermediaries between Craft Link and the final destination for the goods. However, using intermediaries increased the prices significantly, and after the first two years of exporting the intermediaries were dropped. Today, Craft Link ships directly to the buying country. Craft Link’s biggest buyer is the United States. In addition, the European Union serves as a large market, and there is a small Japanese market as well.

Craft Link’s handicrafts are sold to various high-end department stores. In addition, some of Craft Link’s handicrafts are sold in fair-trade shops in the United States, including Ten Thousand Villages and Global Gallery, both of which have locations throughout the country. Craft Link products are also available to purchase online at their website, www.craftlink-vietnam.com.

Craft Link focuses on medium and high end purchasers of handicrafts. Craft Link does not attempt to compete with the cheaper handicrafts coming from other countries, such as China. Quality and artistic integrity are the company’s main focus. This exemplifies the ideals of fair-trade; artisans receive a fair wage for their product, as opposed to being offered a minimal price for their goods. At the same time, buyers are given the opportunity to purchase handicrafts of high quality without paying an inflated price.

Craft Link’s operation is divided into two sectors, the business sector and the development sector. The development sector aims to assist artisans in the advancement of their products, making them more competitive in the global market. In addition, the development sector provides artisans with training and advice on business practices as well as literacy training, with the intention of providing artisans with enough support that they will be successful once the Craft Link developmental assistance comes to a close.
Once the development projects end, which is normally after two years, relations between artisans and Craft Link continue, with the business sector purchasing products from the artisan and offering strategic business advice as needed.

Craft Link has strong, long-term ties with the artisans producing the handicrafts. It strives to help handicraft artisans develop businesses that are sustainable on their own. The company does not want artisans to be dependent on the company for their sustainability; Craft Link actively encourages artisans to form relations with other business partners.

Artisans become connected to Craft Link in one of three ways. The company works with the Museum of Ethnology, in Hanoi, to identify groups who are in danger of losing their cultural traditions. Then, Craft Link approaches the group with a proposal on how to preserve their cultural traditions and turn it into an income generating activity. In
addition, other non-governmental organizations often refer Craft Link to villages in need of assistance in their preservation or development of handicraft production. Finally, word of mouth has resulted in many artisans approaching the company directly, and inquiring about developmental assistance.

Craft Link currently works with 53 different groups throughout Vietnam. Ethnic minority crafts (see Photo 6.2) and the crafts of handicapped persons make up 60% of Craft Link’s goods distributed. The remaining 40% comes from traditional handicraft villages. In working with these different groups, Craft Link’s main focuses are marketing and development.

Photo 6.2- Artisans such as these benefit from the help of Craft Link
Craft Link, as a non-profit organization, has different business goals than a traditional exporting business. Its goals include helping artisans to retain their traditional craft by making it an income-generating activity, increasing the income of craft artisans by promoting traditional crafts to the global market, and raising the world’s awareness of traditional crafts and craft artisans in Vietnam. Therefore, the focus is less on selling a large number of goods, and more on selling goods which exemplify the uniqueness and artistic integrity of handicraft artisans in Vietnam.

6.2- Ngoc Dong Weaving Company

Ngoc Dong Weaving Company has its roots deeply embedded in its namesake, Ngoc Dong village. Beginning as a cooperative in 1988, it only became a formal company as of 2004. As a cooperative, exporting products was extremely difficult, sometimes impossible. As a result, Ngoc Dong cooperative sold the majority of its products to businesses in Hanoi, which would later export the goods to Western markets. Using the middle men in Hanoi resulted in fewer profits for Ngoc Dong and higher prices for the buyers.

By transitioning from a cooperative to a company, Ngoc Dong has experienced substantial grown. Since 2004, Ngoc Dong’s business has grown an average of 23 percent per year. Last year, Ngoc Dong’s sales were at five million dollars.

Today, exports make up the entirety of Ngoc Dong’s market. Germany serves as the company’s biggest customer, with 40 percent of Ngoc Dong’s sales coming from there. Other major markets include the US, Italy, Spain, and the UK. Currently, Ngoc Dong is focusing their efforts on expanding their American market share. Specific
customers include Ikea, Marshall’s, T. J. Maxx, Homegoods, Tchibo (Germany), and Gibson (see Photo 6.3).

Ngoc Dong begins business relations with buyers in a variety of ways. Buyers can buy products through Ngoc Dong’s business website, http://www.ngocdongrattan.com, learn about Ngoc Dong through promotional organizations, or connect with Ngoc Dong through sourcing agents. Sourcing agents have helped Ngoc Dong to connect with the big buyers in the United States. For example, relations with Gibson, a large US purchaser, were made through the use of a sourcing agent in Hanoi. Gibson buys goods from Ngoc Dong, and in turn, sells the goods to major American corporations, including Walmart.
Ngoc Dong Weaving Company does not work directly with handicraft artisans, though handicraft artisans are the producers of their products. Ngoc Dong works closely with collection points, which serve as a “middle man” between the company and the artisans. Ngoc Dong has long-term, contractual relationships with collection points, and collection points have long-term, contractual relationships with the weavers. Ngoc Dong develops designs for baskets and basketware, trains the collection point workers on how to make the items and supplies the collection points with the necessary materials to make the handicrafts. From there, the artisans come to the collection points, where they receive training and the materials to make the goods.
When the artisans complete weavings, they return handicrafts to the collection points. The collection point workers pay the artisans for the items. Then, the collection points deliver the goods to Ngoc Dong’s factory, and the collection workers are paid by Ngoc Dong Weaving Company. Once the goods reach the factory, the quality of the goods are inspected (see Photo 6.4) and the products are prepared for shipping to the export market. Today, Ngoc Dong works with 70 collection points, which work with over 30,000 weavers.

Figure 6.2- Breakdown of Ngoc Dong’s business practices
Ngoc Dong produces various types of basketware; everything from baskets to placemats, to coasters, and much, much more. However, Ngoc Dong has gone beyond producing simple basketware and has improved traditional basket weaving. They use ‘unique rattan,’ which is a combination of bamboo and rattan, for their basketware. Most basketware is made of grass, rattan, or other grass-like materials. However, these materials are very flimsy, producing a low-quality product which is unable to withstand the diverse climates in the export markets. Ngoc Dong’s ‘unique rattan’ provides purchasers with a higher quality, stronger, and cheaper product. Bamboo is very strong and able to withstand the stress of daily use. Bamboo is also able to better withstand the chilly weather of Europe and the United States, where most of the baskets end up going.

Photo 6.5- Laminated bamboo is created in Ngoc Dong’s factories with heavy machinery
Ngoc Dong Weaving Company not only improves traditional basketware to appeal to the export market, but also creates new products in hopes of attracting a larger market. Currently, Ngoc Dong is in the midst of introducing a new product line, laminated bamboo. Laminated bamboo is simply a series of woven mats pressed together by heavy machinery (see Photo 6.5). Laminated bamboo is formed into plates, tissue boxes, placemats, and various other items.

Ngoc Dong does not have a formal relationship with the handicraft artisans, rather, they have a long-term, contractual relationship with the collection points, and the collection points have long-term, contractual relationships with the artisans. However, Ngoc Dong employs village dwellers to work in Ngoc Dong’s factories finishing the basketware and preparing it for shipping to the buyers. In the factory, quality control checks, coloring (if necessary), gluing and shaping, drying, cleaning, and packing of the basketware are done. Currently, Ngoc Dong Weaving Company employs 150 people in its factories. This number will surely to expand as the business continues to grow and with the opening of a third factory scheduled for 2007. Ngoc Dong Weaving Company’s growth and expansion is displayed in the growth of factories, a second factory was recently constructed and a third is planned for 2007.

6.3- Hoa Lu Fine Art and Handicraft Company

Hoa Lu Fine Art and Handicraft Company, like Craft Link, focuses mainly on export sales, but also has a small domestic market. Hoa Lu has a showroom in Hanoi (see Photo 6.6), and a shop in both international airports, in Ho Chi Minh City and Hanoi. Hoa
Lu focuses on high-end exports, which are available in the domestic stores, though the majority of their domestic sales come from cheap items tailored to the tourist market.

Hoa Lu’s main markets are in the United States, Russia, Belgium, France, Germany, Spain and Australia. Currently, Germany is Hoa Lu’s largest market. Like Ngoc Dong, Hoa Lu is focusing on significantly expanding its US market share. Currently, there are Hoa Lu shops in New York and California. In addition, large distributors buy goods from Hoa Lu and sell the items to smaller shops throughout the United States. In countries such as Russia or Spain, there are Hoa Lu in-country representatives selling products to businesses, while the company also sells its products
on its business website, www.hoalucraft.com. Hoa Lu’s sales have varied greatly from year to year, typically the company profits between $200,000 and $400,000 dollars per year.

Unlike the other two exporters, Hoa Lu’s goods do not originate in handicraft villages. Hoa Lu’s goods are modeled from traditional handicrafts, but are created in a factory. Handicraft artisans are used as consulters in the development of Hoa Lu’s products, but do not partake in the production of the goods. Hoa Lu exports a variety of handicrafts, including ceramics, silk, stone, wood and silver.

Hoa Lu Fine Art and Handicraft Company

- Consults handicraft artisans
- Handicrafts produced in factory

Sales

- Local market- cheap goods for tourists
- Exports- High end goods

Figure 6.3- Breakdown of Hoa Lu’s business practices

Hoa Lu’s handicrafts are produced in factories, but they are not mass produced by machines. Hoa Lu has five factories; for the production of ceramic, silk, stone, and wood products. Hoa Lu Fine Arts and Handicrafts employs between 500 and 1000 people in its factories.
Hoa Lu, in an effort to distinguish itself among handicraft exporters, has created a special type silk, a silk which can be machine washed without damaging the material. The material does not shirk nor does it have the typical disadvantages of traditional silk.

6.5- Comparing the Business Practices

Craft Link, Ngoc Dong Weaving Company, and Hoa Lu Fine Art and Handicraft Company share the common goal of exporting Vietnamese handicrafts; however, their approaches in doing so are quite different. Craft Link’s main goals are to introduce Vietnamese handicraft to the global market at a fair price for both the producer and the consumer and to assist artisans in the improvement of their handicrafts. Craft Link has developed direct, long-term relationships with 53 different groups in Vietnam. Making a large profit gain is not a main concern for Craft Link; all profits are reinvested in development projects.

Ngoc Dong also maintains long-term relationships with handicraft artisans; however, their relations are not direct, but through an intermediary collection point. Ngoc Dong provides artisans with training and introduces new handicrafts for the artisans to create; however, this endeavor is not as altruistic as Craft Link’s efforts. Ngoc Dong Weaving Company is a business seeking to earn profits and to gain a larger share of the handicraft market. By improving the artisans’ skills, Ngoc Dong will also benefit, by expanding its product line and the quality of the products. Even so, Ngoc Dong has benefited Ngoc Dong village and surrounding communities significantly by providing over 30,000 weavers with employment.
In contrast, Hoa Lu Fine Art and Handicraft Company does not work with handicraft artisans on a regular basis. Handicraft artisans are used as consultants by Hoa Lu, but handicraft artisans do not partake in the production of Hoa Lu’s handicrafts, which are created in factories.

Both Craft Link and Hoa Lu sell a variety of handicrafts, from textiles to ceramics to bamboo products, unlike Ngoc Dong, which focuses solely upon basketware items. In addition, Craft Link and Hoa Lu have a small domestic market. The domestic market is oriented towards tourists, expats, and a small number of Vietnamese. The products are low-cost items, such as scarves, dolls, and clothing. Both Craft Link and Hoa Lu focus on high-end, high-quality products for its export market. Craft Link’s goal is to provide consumers with high-quality items, exemplifying the quality and artistic integrity of Vietnamese handicrafts, while providing the product at a price fair to the artisan and the consumer. Hoa Lu has targeted consumers of high-end, high quality products as its desired market.

<table>
<thead>
<tr>
<th>Relationships with Artisans</th>
<th>Craft Link</th>
<th>Ngoc Dong Weaving Company</th>
<th>Hoa Lu Fine Art and Handicraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct, long-term</td>
<td>Indirect, long-term</td>
<td>No relationship with traditional artisans</td>
<td></td>
</tr>
<tr>
<td>Type of Market</td>
<td>Domestic-low-end, cheap products, Export- a variety of high-end, high quality products</td>
<td>Domestic- No domestic market, Export- high-quality, low-priced basketware</td>
<td>Domestic- low-end, cheap products, Export- a variety of high-end, high quality products</td>
</tr>
<tr>
<td>Employment</td>
<td>53 different groups throughout Vietnam</td>
<td>30,000 weavers and 150 factory workers</td>
<td>Between 500- 1000 factory workers</td>
</tr>
</tbody>
</table>

Table 6.1- Comparing the Exporting Industries
Each of the businesses has different objectives for themselves and each affect rural communities in different ways. Hoa Lu does not directly effect rural workers; its handicrafts are produced in factories in Hanoi. Indirectly, it could be argued, Hoa Lu benefits rural handicraft producers, by exposing handicrafts to export markets.

In contrast, Craft Link and Ngoc Dong Weaving Company directly affect handicraft artisans by relying on the artisans to supply the businesses with handicrafts to export. Both companies maintain long-term relationships with handicraft artisans.

By connecting the global market and handicraft producers, exporting businesses such as Craft Link and Ngoc Dong have created a sustainable employment option for rural dwellers. This is exemplified by the number of handicraft artisans employed through these businesses. Craft Link currently works with 53 different handicraft producing groups and Ngoc Dong employs over 30,000 weavers.
Chapter 7 - Conclusion

Rural development is imperative for low-income countries. In many of these countries, rural areas have significantly higher levels of poverty than urban areas. Rural industrialization is one method of developing rural areas. Rural industrialization diversifies employment options in rural areas, which often are dependent on the agricultural sector. The most successful rural industries are SMEs. Handicraft industries, one type of SMEs, have been greatly successful in low-income countries. This thesis has displayed the success that the Vietnamese handicraft industry has experienced. In addition to preserving cultural traditions, the Vietnamese handicraft industry generates income in rural Vietnam and provides rural dwellers with alternative employment options.

Vietnam’s population continues to grow, and while there is some urban migration the greatest number of people are concentrated in rural Vietnam. The agricultural sector, the primary employer in rural areas, is waning and provides low pay. If Vietnam wants to prevent urban saturation and extreme rural poverty, its best bet is to continue to develop the rural industrial sector, specifically handicrafts industries. Handicraft industries require low start-up costs, tap into skills already possessed by rural Vietnamese, and can serve as supplementary work for those working in the agricultural sector. In addition, the time is right for Vietnam to tap into the handicraft sector. Vietnamese tourism is rising; handicraft entrepreneurs could begin their business by serving tourist with cheap and easily traveled items. As handicraft artisan’s business growth, the artisan could pair up
with other artisans, cutting costs and expanding product lines, with the next step being the emergence into the exporting sector.

As part of this research, two handicraft villages in the Red River Delta region were examined: Dong Ho and Ngoc Dong villages. Both of the villages have experienced success as a result of their increased handicraft production. However, the development paths of the villages differed. Dong Ho chose to focus on the development of sales by international tourists. Ngoc Dong, on the other hand, chose to concentrate on exporting handicrafts into the global market. These case studies suggest that handicraft villages benefit by coupling with other markets, such as tourism and the international export market.

In addition, the products being produced in the two villages distinguish the two from one another. Dong Ho produces a product that appeals to a limited number of people. Traditionally, the majority of Vietnamese families purchased and displayed Dong Ho paintings during Tet. However, this practice has decreased during the past 20 years. Dong Ho artisans have had to shift their focus to tourism sales. This provides artisans with a small, but stable market. However, cheap imitations on the streets of Hanoi and Ho Chi Minh City cut into the profits of Dong Ho artisans. Dong Ho paintings are a product that the global market will not be aware of. In contrast, Ngoc Dong villages have a product that appeals to most of the world. Basketwares are found in homes, coffee shops, and on the front of bicycles. As such, Ngoc Dong has limitless expansion and growth opportunities in the global market. In contrast, Dong Ho is wholly dependent on the much smaller tourism sector. If the tourism numbers in Vietnam dwindle, so will Dong Ho’s sales.
Dong Ho currently serves a very limited market. The village produces a product that is deeply ingrained in the Vietnamese culture, but may only appeal to a limited group of people, namely ethnic Vietnamese and tourists. However, Dong Ho village can take steps to expand its sales possibilities into the global market. Dong Ho’s product appeal is in its homemade paper and unique printing methods. Artists have begun to expand from the original paintings to include greeting cards. A stationery product line could easily be created by Dong Ho artisans for export to the global market. By expanding the paperworks into a stationery line, Dong Ho village could provide more of its villagers with employment in the handicraft sector, much like Ngoc Dong village.

Handicraft exporting companies have become an important player in the development of the Vietnamese handicraft industry. For this research, three handicraft exporting businesses were studied, all of which experienced success in the global marketplace. This finding suggests that there are innumerable models for a thriving handicraft exporting businesses. In regards to affecting rural livelihoods, Ngoc Dong Weaving Company is the clear winner; it boasts the highest sales and employs over 30,000 weavers.

Ngoc Dong Weaving Company’s model for handcraft exports yields that largest rewards for all involved, the artisans, the company, and the consumers. Ngoc Dong Weaving Company, while seemingly less altruistic than Craft Link, is in fact deeply engaged in the community it was named for. The family who began the company is a family of weavers and handicraft artisans. The company directly benefits 30,000 handicraft artisans, and indirectly the community as a whole benefits. With introduction of Ngoc Dong Weaving Company many community members have been able to switch
to handicraft production as the main form of employment, preventing other sectors from become overly saturated, especially the farming sector. Ngoc Dong Weaving Company provides its workers with the training and materials that are necessary for handicraft artisans to produce the desired goods. At the same time, Ngoc Dong Weaving Company’s model allows for flexibility in workers schedules, by permitting workers to work at home and return the finished products upon completion. This freedom makes room for workers to take on secondary employment or to fulfill domestic duties.

Craft Link greatly benefits its workers also, but in a slightly different way. Craft Link producers are selected based on cultural preservation, which has resulted in ethnic groups being able to continue their traditional handicrafts. In addition, the integrity of the art has been improved, through the use of artistic, business, and literacy training. Essentially, the goal of Craft Link is to assist handicraft artisan in perfecting their trade. Craft Link does not use artisans as long-term employee, but provides the artisans with training and assistance, helping them to become successful, independent entrepreneurs without compromising the quality and historical legacy of the handicrafts.

Hoa Lu Handicraft Exporting provides Vietnamese with factory employment in urban areas. This company does not work with handicraft artisans or rural workers. In fact, Hoa Lu products cannot truly be called “handicrafts,” because the products are produced in a factory. However, it does expose the world to Vietnamese-style handicrafts. Hoa Lu Handicrafts could play a role in rural development in Vietnam. As the company expands it may be to Hoa Lu’s advantage to move its factories into rural parts of Vietnam. Costs in rural areas are much lower than urban areas, in addition rural Vietnam provides factories with a large labor pool.
As of recent, the government has realized the importance of handicrafts in the Vietnamese economy, and has begun to develop policies that directly and indirectly benefit these industries. The government’s support includes interstructural development of handicraft villages, promotion of international tourism and reduced tariffs on exporting items. The Vietnamese government could help the handicraft industry further by customizing policies to individual villages, with residents benefiting even more than they do with current policies.

Based on the interviews with artisans, exporters, and government officials, the development of handicraft industries has indeed translated into the development of a sustainable employment options for rural Vietnamese. Dong Ho and Ngoc Dong villages display that there are numerous paths which a handicraft village can take in developing its industry. Companies such as Craft Link and Ngoc Dong utilize the talents of Vietnamese handicraft artisans and sell their goods to the global market. These businesses expand the market for Vietnamese handicrafts, creating more work for handicraft artisans in the villages. Increased production of handicrafts allows for the diversification of employment in rural Vietnam; with rural dwellers being less dependent on the agricultural sector for their livelihoods.
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Appendix A

Interview Questions for Handicraft Artisans

1. What do you produce? Where do you get the materials for your products?

2. Any changes in your production in the past 10 years (in the items and/or site of production)? If so, why?

3. Any changes in your sales of handicraft products in the past 10 years?

4. How significant is handicraft production in your household income? Any changes in revenues from handicraft production?

5. Where and how do you sell your handicrafts? Are you content with your current sales outlet? If not, and future plans (or hopes)?

6. How helpful has the government been to your production?

7. Any income from handicraft-related tourism?
Appendix B

**Interview Questions for Handicraft Exporters**

1. How important are overseas markets to your business? Any changes in the ratio of domestic sales to export sales in the past 10 years?

2. What and where do you export? Any changes overtime?

3. Describe your relationship with the handicraft artisans (buyer-supplier, joint-ventures, or long-term business partners?).

4. How does your distribution network work in exporting markets?

5. How do you see the government policies in your handicraft exporting business?

6. How do you see handicrafts compared to other countries’ handicrafts in international markets?
Appendix C

Interview Questions for Ministry of Agriculture and Rural Development

1. Currently, what is MARD doing for rural industrialization in Vietnam?

2. What policies does the Ministry have for the development of handicraft industries specifically?

3. Do these policies have a regional focus?

4. How has the government’s view of handicrafts/handicraft industries changed since Vietnam has entered a market-oriented economy?